The State and Economic Interests

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The State and Economic Interests

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FOREWORD

When the members of the Rowell-Sirois Commission began their collective task in 1937, very little was known about the evolution of the Canadian economy. What was known, moreover, had not been extensively analyzed by the slender cadre of social scientists of the day.

When we set out upon our task nearly 50 years later, we enjoyed a substantial advantage over our predecessors; we had a wealth of information. We inherited the work of scholars at universities across Canada and we had the benefit of the work of experts from private research institutes and publicly sponsored organizations such as the Ontario Economic Council and the Economic Council of Canada. Although there were still important gaps, our problem was not a shortage of information; it was to interrelate and integrate — to synthesize — the results of much of the information we already had.

The mandate of this Commission is unusually broad. It encompasses many of the fundamental policy issues expected to confront the people of Canada and their governments for the next several decades. The nature of the mandate also identified, in advance, the subject matter for much of the research and suggested the scope of enquiry and the need for vigorous efforts to interrelate and integrate the research disciplines. The resulting research program, therefore, is particularly noteworthy in three respects: along with original research studies, it includes survey papers which synthesize work already done in specialized fields; it avoids duplication of work which, in the judgment of the Canadian research community, has already been well done; and, considered as a whole, it is the most thorough examination of the Canadian economic, political and legal systems ever undertaken by an independent agency.

The Commission's research program was carried out under the joint

direction of three prominent and highly respected Canadian scholars: Dr. Ivan Bernier (*Law and Constitutional Issues*), Dr. Alan Cairns (*Politics and Institutions of Government*) and Dr. David C. Smith (*Economics*).

Dr. Ivan Bernier is Dean of the Faculty of Law at Laval University. Dr. Alan Cairns is former Head of the Department of Political Science at the University of British Columbia and, prior to joining the Commission, was William Lyon Mackenzie King Visiting Professor of Canadian Studies at Harvard University. Dr. David C. Smith, former Head of the Department of Economics at Queen's University in Kingston, is now Principal of that University. When Dr. Smith assumed his new responsibilities at Queen's in September 1984, he was succeeded by Dr. Kenneth Norrie of the University of Alberta and John Sargent of the federal Department of Finance, who together acted as Co-directors of Research for the concluding phase of the Economics research program.

I am confident that the efforts of the Research Directors, research coordinators and authors whose work appears in this and other volumes, have provided the community of Canadian scholars and policy makers with a series of publications that will continue to be of value for many years to come. And I hope that the value of the research program to Canadian scholarship will be enhanced by the fact that Commission research is being made available to interested readers in both English and French.

I extend my personal thanks, and that of my fellow Commissioners, to the Research Directors and those immediately associated with them in the Commission's research program. I also want to thank the members of the many research advisory groups whose counsel contributed so substantially to this undertaking.

DONALD S. MACDONALD

Introduction

At its most general level, the Royal Commission's research program has examined how the Canadian political economy can better adapt to change. As a basis of enquiry, this question reflects our belief that the future will always take us partly by surprise. Our political, legal and economic institutions should therefore be flexible enough to accommodate surprises and yet solid enough to ensure that they help us meet our future goals. This theme of an adaptive political economy led us to explore the interdependencies between political, legal and economic systems and drew our research efforts in an interdisciplinary direction.

The sheer magnitude of the research output (more than 280 separate studies in 70+ volumes) as well as its disciplinary and ideological diversity have, however, made complete integration impossible and, we have concluded, undesirable. The research output as a whole brings varying perspectives and methodologies to the study of common problems and we therefore urge readers to look beyond their particular field of interest and to explore topics across disciplines.

The three research areas, — *Law and Constitutional Issues*, under Ivan Bernier; *Politics and Institutions of Government*, under Alan Cairns; and *Economics*, under David C. Smith (co-directed with Kenneth Norrie and John Sargent for the concluding phase of the research program) — were further divided into 19 sections headed by research coordinators.

The area *Law and Constitutional Issues* has been organized into five major sections headed by the research coordinators identified below.

- Law, Society and the Economy — *Ivan Bernier and Andrée Lajoie*
- The International Legal Environment — *John J. Quinn*
- The Canadian Economic Union — *Mark Krasnick*

- Harmonization of Laws in Canada — *Ronald C.C. Cuming*
- Institutional and Constitutional Arrangements — *Clare F. Beckton and A. Wayne MacKay*

Since law in its numerous manifestations is the most fundamental means of implementing state policy, it was necessary to investigate how and when law could be mobilized most effectively to address the problems raised by the Commission's mandate. Adopting a broad perspective, researchers examined Canada's legal system from the standpoint of how law evolves as a result of social, economic and political changes and how, in turn, law brings about changes in our social, economic and political conduct.

Within *Politics and Institutions of Government*, research has been organized into seven major sections.

- Canada and the International Political Economy — *Denis Stairs and Gilbert Winham*
- State and Society in the Modern Era — *Keith Banting*
- Constitutionalism, Citizenship and Society — *Alan Cairns and Cynthia Williams*
- The Politics of Canadian Federalism — *Richard Simeon*
- Representative Institutions — *Peter Aucoin*
- The Politics of Economic Policy — *G. Bruce Doern*
- Industrial Policy — *André Blais*

This area examines a number of developments which have led Canadians to question their ability to govern themselves wisely and effectively. Many of these developments are not unique to Canada and a number of comparative studies canvass and assess how others have coped with similar problems. Within the context of the Canadian heritage of parliamentary government, federalism, a mixed economy, and a bilingual and multicultural society, the research also explores ways of rearranging the relationships of power and influence among institutions to restore and enhance the fundamental democratic principles of representativeness, responsiveness and accountability.

Economics research was organized into seven major sections.

- Macroeconomics — *John Sargent*
- Federalism and the Economic Union — *Kenneth Norrie*
- Industrial Structure — *Donald G. McFetridge*
- International Trade — *John Whalley*
- Income Distribution and Economic Security — *François Vaillancourt*
- Labour Markets and Labour Relations — *Craig Riddell*
- Economic Ideas and Social Issues — *David Laidler*

Economics research examines the allocation of Canada's human and other resources, the ways in which institutions and policies affect this

allocation, and the distribution of the gains from their use. It also considers the nature of economic development, the forces that shape our regional and industrial structure, and our economic interdependence with other countries. The thrust of the research in economics is to increase our comprehension of what determines our economic potential and how instruments of economic policy may move us closer to our future goals.

One section from each of the three research areas — The Canadian Economic Union, The Politics of Canadian Federalism, and Federalism and the Economic Union — have been blended into one unified research effort. Consequently, the volumes on Federalism and the Economic Union as well as the volume on The North are the results of an interdisciplinary research effort.

We owe a special debt to the research coordinators. Not only did they organize, assemble and analyze the many research studies and combine their major findings in overviews, but they also made substantial contributions to the Final Report. We wish to thank them for their performance, often under heavy pressure.

Unfortunately, space does not permit us to thank all members of the Commission staff individually. However, we are particularly grateful to the Chairman, The Hon. Donald S. Macdonald; the Commission's Executive Director, J. Gerald Godsoe; and the Director of Policy, Alan Nymark, all of whom were closely involved with the Research Program and played key roles in the contribution of Research to the Final Report. We wish to express our appreciation to the Commission's Administrative Advisor, Harry Stewart, for his guidance and advice, and to the Director of Publishing, Ed Matheson, who managed the research publication process. A special thanks to Jamie Benidickson, Policy Coordinator and Special Assistant to the Chairman, who played a valuable liaison role between Research and the Chairman and Commissioners. We are also grateful to our office administrator, Donna Stebbing, and to our secretarial staff, Monique Carpentier, Barbara Cowtan, Tina DeLuca, Françoise Guilbault and Marilyn Sheldon.

Finally, a well deserved thank you to our closest assistants: Jacques J.M. Shore, *Law and Constitutional Issues*; Cynthia Williams and her successor Karen Jackson, *Politics and Institutions of Government*; and I. Lilla Connidis, *Economics*. We appreciate not only their individual contribution to each research area, but also their cooperative contribution to the research program and the Commission.

IVAN BERNIER
ALAN CAIRNS
DAVID C. SMITH

ACKNOWLEDGMENTS

The research presented in this volume was planned in coordination with related work on labour relations that was conducted as part of the economics research program of the Commission. In addition, papers from both research streams were presented at a joint Symposium on Labour Management Cooperation in Canada, which was held in Ottawa in June 1984 to enable Commissioners, academics and practitioners to explore the issues involved. This parallel research is reported in two volumes coordinated by Craig Riddell, *Labour-Management Cooperation in Canada* and *Canadian Labour Relations*, also published jointly by the Commission and the University of Toronto Press.

I would like to thank the members of the Research Advisory Group who provided able advice during the last two years: André Bélanger, Anthony Birch, David R. Cameron, Peter Hall, Ken Hart and Ken McRae.

Finally, the support and especially the patience of numerous members of the Commission staff were critical to the completion of this research. In particular, I would like to thank Alan Cairns, Françoise Guilbault, Karen Jackson, Craig Riddell, Donna Stebbing and Cynthia Williams.

KEITH BANTING

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The State and Economic Interests: *An Introduction*

KEITH G. BANTING

Nowhere has the changing balance between the state and society proved more sensitive than in the relationships between government and major economic interests. The formidable economic role of the modern state has created a pervasive interdependence between the public and private sectors. What economic interests such as business and labour can achieve depends not only on their own actions, but also on the responsiveness of public decision makers to their concerns; and conversely, the effectiveness of countless public policies depends heavily on the reaction to them of private interests.

This complex interweaving of public and private action carries an enormous potential for conflict and mutual frustration. As Gerhard Lehmbruch has argued, effective economic policy making "is more and more dependent upon processes of consensus-building within the political system. That is the burden that interventionism places on policy-makers."[1] Interdependence has, in effect, generated pressures for greater integration of public and private decision making. Business, labour and other groups now devote considerable resources to managing their relations with the state, and develop complex organizations through which to press their views on public officials. Moreover, during the postwar period, a number of Western nations established elaborate decision-making processes that would encourage ongoing collaboration between government and major economic interests. Each country did so in terms of its own political and cultural traditions, but in the words of one observer, "the one perception most countries have had in common was the recognition that the traditional constitutional framework of political decision-making no longer appeared capable, by itself, of dealing with the complexities of post-war industrial societies."[2]

Canada has not gone as far as some countries in this direction. In comparison with the formal structures and close integration that have developed in some Western nations, our consultative practices tend to be fragmented and informal. Moreover, relations among government, business and labour have been marked by substantial conflict over the last decade. Contacts between the federal government and the Canadian Labour Congress were seriously strained throughout much of the 1970s and early 1980s, and have yet to be fully repaired. The relationships between business and government have been less generally antagonistic. But consultation here has been intermittent; sharp conflicts have erupted in some sectors; and there are various signs of continuing frustration.

These tensions are admittedly only part of a larger set of Canadian discontents. Yet they clearly deserve greater attention. Our regional and linguistic conflicts have captured major public attention during recent decades, and substantial scholarly and governmental thought has been devoted to the nature of those conflicts and to institutional mechanisms that might better channel and manage them. By comparison, much less attention has been devoted until recently to the linkages between the Canadian state and major economic interests, and to alternative ways of managing the inevitable interdependency between them. The need to redress this imbalance has been underscored by the dramatic shift in the policy agenda of the country. While the issues of language and region that dominated the 1970s have not been resolved, the overwhelming political imperative of the 1980s has been to cope with severe recession and major international economic adjustments, and to manage the domestic conflicts that they have generated.

This volume examines the nexus between the state and major economic interests. In doing so, it focusses on two broad issues. First, it investigates the factors that shape the relationship between government on the one hand, and business and labour on the other. The links that develop between private and public decision makers in any country are not mere accidents of history. They are moulded by a complex set of factors: the impact of international economic forces on the country; its internal economic and political structures; and by the traditions and social norms embedded in its culture. Understanding these underpinnings is critical, since they constrain the scope for reform in the relationships between the state and economic interests, and limit the ease with which practices can be transferred from one country to another.

Secondly, the volume probes the economic and political consequences of the relationship between the state and major economic groups. Political scientists have long been accustomed to examining such links but, as Suzanne Berger has noted, "theory on the nature and role of groups that mediate between society and state has been critical to the development of several of the social sciences."[3] Group-state rela-

tions are increasingly creeping into economists' analyses of the economic performance of different Western nations. As we shall see, there is an active debate about how effective consensus mechanisms involving business, labour and government have been in combatting unemployment and inflation in countries that have relied on them during the turbulence of the last decade. Similarly, Mancur Olson's *The Rise and Decline of Nations* has incorporated group-state linkages into the very heart of his explanation of differences in the rates of economic growth among industrial nations.[4]

The impact of relations between the state and key economic groups extends well beyond the performance of the economy, however. Many analysts see these linkages as central to the levels of broad social stability and harmony in modern societies. Others emphasize their implications for the health of democratic institutions. In developing more or less elaborate consultative systems, Western nations have created another mechanism for representing and accommodating important social interests, a mechanism that parallels the traditional system of political representation embodied in legislatures, political parties and elections. The balance between the functional and political systems of representation is an important question for students of modern democratic politics.

By any standards, this is a sweeping set of issues. Clearly the study of group-state relations in the field of economic policy provides an important vantage point from which to survey central elements of the political economy of Western nations.

In addressing these issues, the volume incorporates a comparative dimension, as well as a careful analysis of Canadian experience. A comparative perspective can help to identify the basic forces that shape relations between the state and economic interests, and highlight the consequences of different patterns of interaction. Accordingly, Part One examines the relationships in other countries. Leo Panitch evaluates the experience of nations that have sought to develop a close integration of government, business and labour in the form of tripartite decision making, providing thereby a sharp contrast to Canadian practice. Ken McRae then examines economic policy making in countries that are linguistically and culturally divided, asking whether it is possible to blend tripartite procedures with formal representation of cultural interests. Finally, in a sweeping interpretation of the political economy of advanced nations, Andrew Martin extends the analysis of tripartism by analyzing the impact of the larger international economic system on the prospects for the success of such close collaboration between the state and major economic groups.

Part Two focusses more directly on Canadian experience. William Coleman investigates the relationship between business and the state in this country, paying particular attention to the structure and role

of business associations. Pierre Fournier then examines various consensus-building mechanisms that have been employed to develop a greater commonality of view among business, labour and government, and assesses the prospects for such processes in the future.

This introductory chapter highlights the main themes that emerge from the chapters that follow, and seeks to place them in the context of other studies of the state and economic interests, including related research that appears elsewhere in the publications of the Royal Commission.

Comparative Perspectives: Tripartism and the Modern State

As Panitch observes in his paper, "the idea of social harmony between capital and labour is as old as industrial capitalism itself." In nineteenth-century Europe, corporatist doctrine advocated an industrial order in which representatives of employers and labour would be integrated into the deliberative processes of the state, speaking for the major interests of the emerging industrial order and managing the relationships among them. In this way, the conflicts inherent in industrial society might be eased, and the underlying balance, harmony and "organic unity" of the community preserved.[5]

Corporatist doctrine may have faded in Western political discourse during the twentieth century, but the search for a broad social consensus on economic policy has not. During the postwar period, a number of European countries devoted considerable effort to developing institutions and decision processes that encourage an ongoing collaboration between government and major economic interests. Countries such as Austria, Sweden, Norway, Denmark and, for briefer periods, The Netherlands and West Germany established tripartite systems that, while different in important details, share the common element of central negotiation and accommodation among the three "social partners" — government, business and labour — over incomes, manpower planning and other important economic policies. These mechanisms go well beyond simple consultation with economic groups, which is common in all Western industrial nations. Rather, they involve joint decision making, and tend to blur the very distinction between public and private sectors. The apparent economic success of countries relying on tripartite processes, especially during the 1970s, has often been attributed in substantial measure to the effectiveness of these systems of social consensus.

An examination of the tripartite experience involves two important issues. The first is the nature of the economic and political conditions under which tripartite relations are established and flourish. What kind of structures facilitate the successful operation of such arrangements? Such an analysis is critical to any discussion of moving toward tripartism

in Canada, where the framework of economic and political institutions is much less conducive to centralized negotiations, and where the social consensus on which such systems ultimately rest may be more tenuous. The second issue is the impact of such systems on both the economic and political lives of countries that operate them. Can one say that tripartism has been a major, independent factor in improving economic performance? And what have been the consequences for the stability and vibrancy of their democratic institutions?

The Preconditions of Tripartism

At the broadest level, some commentators trace the development of tripartism to the international economic order. Peter Katzenstein, for example, has noted that such consensus processes have developed mainly in small nations with open economies, which are as a result particularly vulnerable to changes in international economic conditions.[6] Greater openness generates strong pressures to remain competitive in world markets, and periodically exposes domestic production to sharp adjustments on a scale that for the most part is unknown in larger, closed economies. The scope for social dislocation and political conflict in such a context is clear; in Stephen Krasner's words, "social stability is, *ceteris paribus*, inversely related to openness."[7] Katzenstein argues that the governments of smaller nations in Europe seek to manage their situation by adopting a dual strategy of international liberalization and domestic compensation. On the one hand, they support the liberalization of trade, seeking access to the larger markets of other nations. On the other, they attempt to cushion themselves from the adverse consequences through consensus decision making and generous social programs. International vulnerability, Katzenstein concludes, constitutes a powerful pressure for domestic collaboration.

But not all countries with open economies develop tripartite processes, as Canadian experience itself attests. Domestic factors are also critical, and it is these domestic factors that receive the greatest attention in the papers in this volume. In explaining the emergence of tripartite processes, both Panitch and Martin focus on two inter-related dimensions: i) the political balance among the "social partners"; and ii) the distribution of authority in economic and political institutions.

For Panitch, in particular, the emergence of modern tripartism was fundamentally grounded in the economic and political balance between capital and labour. For the most part, tripartite systems were the creation of social democratic governments, which were closely allied with powerful labour organizations, and which drew their electoral strength primarily from working-class voters. Social democratic governments (or coalitions of which they were part) brought to power a faith in indicative planning and a determination that labour should participate along with

business and government in the processes of policy formation on the basis of greater equality. Indeed, social democrats often appealed to their electorates on the basis that their special relationship with labour made them uniquely able to deal with trade unions, to generate a wider social consensus, and to minimize social conflict over the directions of economic change. While conservative parties were often sympathetic to tripartite initiatives, social democrats adopted tripartism as a central element in their political philosophy in the postwar period. As Panitch concludes, "the political and industrial wings of the social democratic labour movement were in many ways the authors of modern tripartism."

In particular, the development of tripartite decision making flowed from the larger approach of such governments to economic management. The political strength of the left ensured that the highest priority was placed on the maintenance of full employment and the expansion of the Welfare State. As Martin's survey of comparative studies of the policies of Western nations confirms, the strength of organized labour is the single most important factor determining the intensity of the state's commitment to full employment and social spending. The commitment to full employment in particular was crucial. As Panitch observes, "it was in those countries where and when the state was unwilling or unable to compromise on near-full employment as a policy goal that tripartite structures came to play a role." The tripartite approach was premised on the assumption that conventional demand management alone could not sustain full employment without placing serious pressures on prices (something that represented a particular threat in smaller, open economies heavily dependent on export industries). But full employment and stable prices might be compatible, it was argued, if demand management were supported by an incomes policy freely negotiated among the social partners, as well as other labour-market policies. A voluntary incomes policy thus became the core feature of modern tripartism, a priority that reflected political resistance to unemployment as a tool of economic management.[8]

In addition to their support for this approach to economic policy, social democratic governments were more inclined to provide organized labour with various forms of compensation for its cooperation in the formulation of incomes policy. These forms of compensation have involved increased social spending, price and profit restrictions, or credible assurances that the benefits of wage restraint would be directed to investment rather than to increased dividends. While the state does not always play a leading part in the collective bargaining process in tripartite systems, its role as guarantor of the larger understandings implicit in the agreements is critical.[9]

A second domestic factor that facilitated the emergence of tripartite relations was the concentration of economic and political authority. Tripartism on the European model requires a high level of centralization

within each of the three "social partners." Strong national employer and trade-union federations that cover the great majority of enterprises and the work force must be capable of negotiating on behalf of their sector and concluding agreements that commit their memberships. Similarly, government leaders must possess the authority to fulfil any understandings reached concerning public policy. As Martin emphasizes, any fragmentation of political authority over economic policy — whether between different bodies at the national level or between different levels of government — can erode the capacity to make credible commitments. Centralization of economic and political authority is thus a precondition of a close integration of the three "social partners"; dispersal of power, on the other hand, tends to generate a more pluralistic set of relationships.

By all conventional measures, the countries with the most experience with tripartite processes — Austria, Sweden, Norway, Denmark, the Netherlands, West Germany — are centralized societies. Politically, they are either unitary states or, in the cases of Austria and Germany, centralized federations in which authority over economic policy is heavily concentrated at the national level. Economically, they are also centralized, especially in the domain of collective bargaining. Strong central employer federations were well established in the Scandinavian countries by the 1940s; and in Austria a similar concentration was established by the Chamber of Business, which is a statutory public corporation with compulsory membership. A parallel pattern has developed within organized labour. Countries such as Austria, Sweden, Norway and Denmark have high levels of unionization, and the most highly centralized trade-union movements in the Western world in terms of the financial resources and the authority of the national federations over their affiliates and members.[10] This framework generates a highly centralized process of wage formation, with direct or indirect government involvement in the negotiations a recurring feature of the system. Centralization of economic and political authority is thus a key feature of tripartite systems, producing élitist processes of decision making in important spheres of national life.

This centralization is, in turn, rooted in the wider nature of society. Countries with tripartite processes tend to be smaller nations with relatively homogeneous societies, a common language and culture, and few serious regional tensions. These countries are certainly not paragons of social consensus; many have deep ideological and class divisions that help to explain the development of tripartite forms of economic management in the first place. But these cleavages are not overlaid with the cultural or linguistic divisions that structure politics in some societies.

The impact of cultural pluralism is highlighted in McRae's paper on economic decision making in linguistically divided societies. None of

the countries that he examines, Switzerland, Belgium and Finland, have managed to integrate tripartite procedures with formal representation of linguistic or cultural interests. Switzerland functions on a decentralized basis, with government playing a smaller role than elsewhere; collective bargaining, for example, proceeds substantially at the cantonal level, providing partial autonomy for the linguistic communities.[11] Belgium, on the other hand, is in transition. Collective bargaining has remained national in scope, with careful attention to linguistic representation within the organizations that represent business and labour at the negotiating table. However, other aspects of economic policy are being increasingly transferred to the regions, where the language groups have substantial autonomy, and it remains to be seen whether this combination is a durable one. Finland, in contrast, does operate on a tripartite basis, but without formal representation of the linguistic minority, a formula that persists because the language issue itself is not currently a sensitive one. As McRae notes, none of this means that the combination of ethno-linguistic diversity and economic tripartism is impossible. But cultural pluralism clearly makes the process more difficult.

In summary, then, international economic vulnerability, strong left-wing political forces, and the centralization of economic and political power have all contributed to the emergence of tripartism. Yet even when these facilitating factors are strongest, tripartism has been neither painless nor permanent. Rather, as Panitch emphasizes, such relationships are subject to continual internal strains and even to occasional collapse.

The cross-pressures inherent in tripartism bear most heavily on the private sector participants.[12] On the one hand, formal participation in economic policy making can offer business and labour organizations real advantages: enhanced opportunities to influence national policy; recognition, status and even legitimacy as national institutions; greater access to the technical resources of government; and advance knowledge of new directions in government policy. On the other hand, integration into government processes also carries major costs. Participation can consume immense resources in terms of the time and expertise of business and labour leaders. More critically, tripartism reduces the autonomy of all three of the parties, and can generate severe tensions between the organizations representing the major economic interests and their memberships, especially if the leadership is seen to be cooperating in unpopular measures. These dangers are probably greatest for organized labour (although they should not be discounted entirely in the case of business). Leaders of even the most centralized federations can discover that the price of cooperative behaviour is the erosion of their membership levels and/or serious challenges from below.

As a result, since 1945, participatory processes have gone through a number of phases, each characterized, in Panitch's words, by an "active

search for consensus around an incomes policy so as to facilitate full employment, price stability and balance of payments equilibrium, and each punctuated at its close by the severe instability or breakdown of tripartite arrangements." The first phase covered the period of postwar reconstruction. The second phase, which began in the mid-1950s, eroded and in some cases collapsed in the late 1960s as the impact of wage restraint was felt. The third phase of tripartism began in the very different economic circumstances of the 1970s, and was often a complement, rather than an alternative, to deflationary policies. In this context, negotiations broadened beyond simple wage policy to a wider "social contract," which included various forms of compensation for labour cooperation (wage indexation, price controls, tax reductions or increased social benefits, participation in management, and/or improved legal protections for unions). Yet again, these relations have been unable to contain all of the tensions involved, especially in the depths of the recession, and another cycle of breakdowns has occurred in several countries, including Germany, Sweden and, most recently, Denmark.

The underlying predisposition toward consensual forms of decision making may indeed be stronger in parts of Europe than in North America, but even there, success is certainly not guaranteed.

The Impact of Tripartism

Part of the fascination with European tripartism flows from the continuing appeal of the ideal of social harmony and the same aversion to social conflict which infused corporatist doctrine in the nineteenth century. However, the modern case for consensus is also built on its economic promise. The intense interest reflects a sense that tripartite countries have enjoyed superior economic performance over the postwar period, and that they offer an alternative to standard demand-management and monetarist solutions to our contemporary ills, an alternative that avoids the human cost of high levels of unemployment. This section surveys the contemporary debate over the economic, social and political impact of tripartism.

THE ECONOMIC RECORD

A systematic assessment of the economic performance of tripartite nations remains difficult. The literature is bedevilled by conflicting approaches. Different countries are compared, different time periods examined, different methodologies deployed, different criteria of evaluation evoked. Moreover, the further task of isolating the independent contribution of tripartism, as opposed to other factors, to the economic performance of these countries remains complex.

Nevertheless, some points of agreement do emerge. Most important,

tripartism is clearly associated with lower levels of inflation and unemployment. This conclusion flows from different bodies of literature employing different methodologies and time periods. In this volume, for example, Panitch compares the historical experience of Austria, Sweden, Norway and Germany over the last 20 years with the average performance of Western countries; Martin, on the other hand, relies on cross-national studies that employ multiple regression analysis to test the relationships between tripartism and various dimensions of the economic record of advanced industrial nations. Elsewhere, economists have probed the impact of tripartite processes with formal models and econometric techniques.[13] In the main, the evidence points more or less firmly in the same direction: nations with tripartite systems have achieved a better record in terms of inflation and unemployment than countries with more decentralized forms of wage setting.

Agreement on this point, however, does not eliminate controversy over the economic value of social consensus. Martin and Panitch represent two schools of thought on this larger issue. Lower levels of unemployment and inflation, together with the higher levels of social spending in these countries, lead Martin to conclude that tripartism makes a significant contribution to economic and social well-being. Panitch, on the other hand, is much less impressed by the economic dividend of tripartism. The record on unemployment and inflation, he argues, "has not been as strong as often alleged and . . . is increasingly less favourable." Moreover, these countries simply do not perform better in terms of other dimensions of economic activity: growth, profits and rates of return, investment, productivity and income distribution. In general, Panitch cautions strongly against optimism about the tripartism thesis.

At one level, this disagreement simply reflects emphasis on different elements in the overall balance sheet on tripartism. At another level, it flows from the perspectives of the authors. Scholars such as Martin place the greatest stress on the *advantages* of tripartism. In doing so, they reflect greater faith in the capacity of social democratic reformism to improve economic well-being and to narrow the inequalities of income and power in modern society. Panitch, on the other hand, stresses the *limitations* of tripartism. While countries adopting such procedures may enjoy somewhat better economic performance, he insists that they cannot escape the fundamental dynamics of a capitalist economy. Tripartism has not led to equality among classes; nor has it given organized labour much influence over important aspects of the economy, including investment decisions; nor has it fully shielded nations that practise it from the economic turbulence of the last decade. For Panitch, tripartism looks more like a strategy of integrating labour into the established social order than an instrument of fundamental reform. As David Cameron has pointed out, such debates represent the continuation of the longstanding controversy over the nature of social democracy and the scope for a reformist path to equality.[14]

While Martin is clearly more impressed with the economic record of tripartism over the last 20 years, he is pessimistic about its future. The source of his anxiety lies less in domestic conditions than in the international economy. While Martin does not see the original emergence of tripartism primarily as a response to international vulnerability, as does Katzenstein, his basic conclusion is that the achievement of the employment and social goals that underpin tripartism is increasingly incompatible with participation in the international economy.

Martin's argument is complex and builds through several stages. First, the intensity of the commitment to full employment and the welfare state depends on the industrial strength of organized labour and the political strength of left-wing political parties. Secondly, the actual capacity of governments to achieve such goals is constrained by the international economy, and especially by the policies adopted by the country or countries with greatest economic weight. The influence of dominant countries is felt both through their influence on the initial design and subsequent operation of the institutions and rules governing economic relations among countries, and through the importance of changes in their own levels of domestic economic activity for wider international trade and financial movements.

As a result, the level of political support for the goals of full employment and the welfare state in economically dominant nations has a major bearing on the capacity of smaller nations to achieve those goals as well. In the case of the United States, the weakness of organized labour and the absence of a credible left-wing party, as well as the fragmentation of authority over economic policy, means that employment and welfare goals have a lower priority than elsewhere. Moreover, America's weight in the international economy gives it a capacity, in effect, to export its priorities. Martin traces this potential through the postwar period, beginning with the different approaches of the United States and Britain to the new monetary system and the dominance of the American view in negotiations that culminated in the Bretton Woods Agreement in 1947. During the next two decades, he argues, the restrictionist impact of the United States was offset by other factors, such as unprecedented economic growth, geopolitical rivalry with the Soviet Union in the international context, and the dynamics of electoral competition at home. Indeed, in that period the United States essentially underwrote the attainment of full employment and the development of the Welfare State in Western Europe.[15] Since then, however, American policy has placed an ever lower priority on employment and social goals, and has increasingly constrained the capacity of other countries to chart a separate course. The mortal danger for the tripartite experiments of Europe is that the inability to preserve the successes of an earlier era may undermine the faith in the process itself and slowly erode the credibility of the social goals on which it was based.

The interpretation advanced by Martin is powerful and sweeping,

combining as it does a subtle analysis of both the domestic and the international forces shaping the economic role of the modern state. Given its breadth, the argument is suggestive rather than conclusive, as Martin himself indicates. But it stands, alongside Panitch's chapter, as a warning about the durability of tripartite decision making. Moreover, it points to pressures felt in all Western nations, Canada perhaps more than others, as they struggle to maintain their economic and social goals in a more hostile international climate.

The Social and Political Record

The chapters of this volume concentrate mainly on the economics of tripartism. Controversy over the economic record should not, however, obscure the social and political impact of such systems. After all, social harmony, not economic growth, was the primary theme of traditional corporatist writings, and many commentators view modern tripartism in a similar way, as a means of moderating the class divisions inherent in capitalist societies. Moreover, such decision processes raise important questions about the nature of democracy in Western industrial nations.

Those who see tripartism primarily as an instrument of social integration point firmly to the lower levels of industrial conflict in tripartite systems. Even analysts who are sceptical that tripartite relations can have any significant impact on economic performance in the long term emphasize the impact on strike activity. In the words of one Finnish official, some agreements "have simply been compromises to keep the peace."[16] Cross-national studies by Douglas Hibbs, David Cameron and others have firmly established the relationship between the core elements of tripartism and low levels of strike action.[17] The point is made even more graphically by an examination of the history of industrial conflict in nations that established tripartite regimes in the postwar era. As Panitch notes, the decline in strike activity in Sweden, Norway, Denmark and Germany (and to a lesser extent Belgium, the Netherlands and the United Kingdom) between the interwar and postwar periods was truly spectacular. This suggests that the major impact of tripartism may have been to ease the social tensions inherent in potentially conflictual societies. In Malles' view,

> . . . the European consensus systems have contributed very significantly to carrying out a variety of social reforms and adjustments to changing circumstances without major social strife and, with a few exceptions, without major industrial conflict. In this respect, European postwar performance is striking, not so much by comparison with the Canadian experience, but by comparison with these countries' own past.[18]

This theme of social harmony has been extended by others. Philippe Schmitter has argued, for example, that tripartite nations achieved

greater social and political stability during the 1960s and 1970s, as measured not only by industrial conflict but also by various forms of political protest (demonstrations, riots and political strikes) and regime stability (turnover in governments, the electoral margin of governments and shifts in the party system). In general, Schmitter concluded, tripartite systems had largely escaped the problems of "ungovernability" that have excited great debate in other Western industrial nations.[19] In a similar fashion, Harold Wilensky, Ramesh Mishra and others have suggested that countries with "corporatist" modes of government have proved more effective in managing the Welfare State, maintaining a broad consensus on the ways in which to adapt social programs to a harsher economic climate, and avoiding the anti-welfare backlash that has characterized the politics of social policy in many other nations.[20]

There are limits, however, to the tripartite approach to social conflict, limits revealed more clearly in the late 1970s and 1980s. The fundamental question is whether consensual decision processes can cope with the extent of state intervention implicit in such systems. The expansion of the Welfare State, the management of an incomes policy and the negotiation of a broad social contract draw the state deeper into the central distributional processes of society. In Hibbs' words, this strategy shifts "the distributional struggle away from the private marketplace, where allocation takes place through collective bargaining and industrial conflict, to the public arena, where labour and capital compete through political negotiation and electoral mobilization."[21] While the allocative outcomes of the market may not be fair, the process is less visible politically. An incomes policy and a social contract, however, pull distributional questions toward the very centre of the government agenda, and channel conflicts over them firmly into the political process. The successful management of such a system therefore depends on the continual renewal of a broad social consensus on the distribution of the nation's resources, without which governments are hard pressed to fine tune income differentials.[22] But such a consensus is clearly more sustainable in the context of economic growth, and the multiple economic crises of the late 1970s and 1980s have strained such social solidarity.

There is no inevitability here. In some European countries, tripartism has managed to contain the pressures and has reinforced the stability of the social and political system. For example, Flanagan and his colleagues conclude that "in Austria an exceptionally unified and centralized union movement, with strong ties to the shop stewards, has underwritten a higher degree of parliamentary stability."[23] In part this may also flow from the refusal of Austrians to saddle the bargaining process itself with redistributional tasks; both unions and employers largely accept that wages should be distributed according to the worker's contribution to production, while distributional goals should be pursued separately through social legislation.[24]

The record elsewhere is less sanguine, however, as the faltering of tripartite decision making in a number of countries underscores. Moreover, there is a danger that the collapse of consensus mechanisms may itself actually exacerbate the underlying tensions or erode confidence in the stability of the political system. British experience in the 1970s points to the wider political consequences of trying, but failing, to establish consensus mechanisms. The collapse of incomes policies, of both a statutory and voluntary nature, has often visited drastic consequences on their political authors, particularly the Conservative government of Mr. Heath in February 1974 and the Labour government of Mr. Callaghan in March 1979. The legacy of repeated failure raised concerns about the "governability" of Britain, and the 1979 election installed an administration resolutely opposed to such corporatist solutions to economic problems.

The tripartite promise of social harmony is thus a qualified one. In addition, it is a promise with important implications for the role of the central political institutions of liberal democracy. Indeed, in general terms, tripartism has an uneasy relationship with democratic processes.

On the one hand, democracy constrains the durability of tripartite relations; much of the instability of "social contract" bargaining flows fundamentally from the democratic nature of the societies in which it operates. As Panitch points out, early corporatist doctrine was actually conceived as an alternative to the spread of liberal democracy, and to the mass suffrage and freedom of association which that spread entailed. But in the contemporary context of liberal democracy, the search for economic consensus is premised on the *voluntary* participation of each of the partners, and it is this voluntarism that ensures that tripartite processes can and do collapse, with depressing frequency in some countries.

On the other hand, tripartism is sometimes seen as constraining the vibrancy of democratic institutions. An effective tripartite system constitutes a mechanism for representing key interests in the society and developing agreement on critical aspects of public policy; as such it constitutes a potential rival to the legislative and party systems that also claim to represent society and formulate policy. Some analysts fear that such functional representation will slowly erode the primacy, if not the formal sovereignty, of elected institutions. Lehmbruch, a leading European student of these nations, however, argues that such fears are misplaced.[25] Tripartite decision making, he notes, requires a high level of consensus and can manage only the restricted range of issues on which all three social partners can agree; such procedures are therefore fragile and particularly susceptible to overload. Parliamentary decision making, in comparison, can normally proceed on the basis of a lower level of consensus with a simple majority being sufficient in most cases. As a result, parliamentary decision making remains more flexible and is more capable of managing controversial issues about a nation's future. The clear implication of this line of reasoning is that politics is unlikely to

be supplanted as the primary decision mechanism in such societies, and the recent erosion of tripartism in some countries lends support to this conclusion.

Even though the authority of democratic bodies is likely to prevail, the centralization of authority required to operate tripartite institutions does make for élitist politics, accentuating the dominance of executives over legislatures in the political realm, and of central leaders over members in economic institutions. Austria is a case in point. The interlocking of economic and political leadership positions has, in Panitch's words, resulted in "a degree of concentrated elitism that would have even Robert Michels rubbing his eyes." While such processes are considered normal in societies that have long traditions of relying on such élite accommodation, the image of powerful groups striking deals with the government in private sessions does cause greater unease in societies used to more competitive, pluralistic politics.

Summary

As with nineteenth-century corporatist doctrine, the promise of modern tripartism is the promise of economic and social harmony. The consensual approach to economic management rests on the premise that there is an underlying compatibility among the contending social interests in modern welfare capitalism. Appropriate institutional arrangements and decision processes can therefore ensure that this natural compatibility surfaces and is ratified in the policies and behaviour of both the public and private sectors. This optimistic view of the nature of civil society stands in sharp contrast to the more Hobbesian image of intractable conflict among individuals, groups or classes that pervades liberal, pluralist and Marxist theories alike.

The promise of tripartism is not a promise for all nations, however. As the papers in this volume confirm, such a close integration of the state and economic interests reflects the political and institutional patterns of the countries involved. Campaigns to transfer these processes into different contexts are likely to disappoint their champions. Nor is the tripartite promise one for all seasons. Through much of the postwar period, consensual systems did achieve an economic advantage in terms of unemployment and inflation, and a degree of social harmony denied to them in earlier decades. But in many cases, they have been unable to cope as well with the tensions generated by the severe recession and international economic adjustments of the 1980s.

The Canadian Experience

The Canadian experience during the postwar era reflects a similar groping for new forms of coordination between the state and economic

interests. The expansion of the public sector has placed greater pressures on traditional systems of representation and led to the proliferation of new intermediaries. To take one example only, the vast majority of the associations representing various segments of the business community emerged after 1940, with the greatest growth coming between 1960 and 1975, in tandem with greater state intervention in economic life.

Yet, in contrast to the European model of centralized, structured mechanisms for developing consensus, our traditional consultative practices have been much more decentralized and informal. Relations between the state and economic interests have been more pluralistic than corporatist, and over the last 15 years at least have been marked as much by conflict as by consensus. To understand this pattern and to assess the scope for reform, it is important to look once again at the context for consultation, as defined by the distribution of authority and the political relationships among business, labour and government.

The Consultative Context

In comparison with tripartite countries, Canadian institutions are characterized not by the concentration of power, but by its fragmentation. In both economic and political institutions, authority is dispersed through competitive centres, in ways that inhibit the centralized interaction that lies at the heart of tripartite systems.

In the political realm, federalism divides authority over economic policy sharply between the two orders of government, and economic policy in Canada evolves through the independent, and often competitive, actions of 11 governments. This constitutional framework clearly limits the capacity for centralized negotiations between the state and economic interests. The problems can be seen in the prospects for a voluntary incomes policy. The constitution does not preclude federal authorities from entering into discussions with business and labour about a voluntary restraint program, but it does limit the prospects for the kind of comprehensive agreement that business and labour might require. The federal government could not, for example, enter into any commitment concerning the salaries of provincial employees, who constitute a significant component of the membership of public sector unions, or concerning the wide array of provincially regulated prices. A fully comprehensive agreement would, therefore, require discussions among business, labour and the 11 senior governments. The history of federal-provincial conferences, however, does not encourage high expectations about the results of such deliberations.

Federalism complicates the process of consensus building more generally as well. As Fournier notes in his paper, the coincidence of intersectoral and regional divisions is a volatile mixture in Canada. Conflicts among the interests of different sectors of the economy exist in every

modern society; and the concentration of different kinds of production in particular areas means that such conflicts often take on a regional dimension, even in countries with a unitary system of government. Italy, France and Britain all confront such tensions. In Canada, however, such regionally sensitive intersectoral conflicts, especially those between the resource and manufacturing sectors, also turn into battles between governments. With no simple mechanism for resolving intergovernmental clashes, the intensity of conflict escalates, as each government seeks to mobilize private interests and the population in support of its cause. Consensus becomes a more elusive goal.

Fragmentation also characterizes the institutions representing both business and labour. Canadian business certainly does not lack for spokesmen. As Coleman's paper documents, there are some 480 nationally relevant associations in operation today, together with another 102 representing various interests in the agricultural sector. In contrast to the European pattern, however, the Canadian system of associations is fragmented, pluralistic and competitive. The vast majority of groups represent special product interests, and they are not generally integrated into a broader organization representing the entire sector of the economy in which they operate, or into a "peak" association representing business as a whole. General business associations, such as the Business Council on National Issues (BCNI), the Canadian Chamber of Commerce, the Canadian Federation of Independent Business, and the Canadian Organization of Small Business, clearly represent different constituencies or, in some cases, are competing spokesmen for one element of the business community. They are, moreover, direct membership associations with no formal, hierarchical relationship with sectoral organizations, such as the Canadian Manufacturers Association or the many subsectoral organizations. They are not, therefore, peak organizations which speak authoritatively for all business groups and consolidate their work in a formal way. (The closest Canada comes to such peak organization is at the provincial level, with the Business Council of British Columbia and the Conseil du patronat in Quebec.)

The reasons for this fragmentation are complex. The primary divisions simply reflect natural conflicts of interest, such as those between different sectors of industry, or between large and small businesses. But the fact that these diverse interests are not effectively accommodated within more general associations as they are in other countries reflects characteristics particular to Canada. Part of the explanation lies in Canada's territorial divisions. Language and region constitute separate bases for organization in business as in other segments of society, especially given the importance of provincial governments in economic affairs. In effect, business associations must cope with many of the same territorial conflicts as the political system and, in Coleman's view, the regional dimension of many general associations is particularly weak.[26]

In addition, the extent of foreign ownership is also important. The distinction between foreign and Canadian-owned firms can become part of the basis of separate associations, as in the food-processing industry. Even when separate organizations do not emerge, foreign ownership can reduce the prospects for strong consensus within the business world. As the Task Force on Business/Government Interface observed in suitably moderate tones, "the mixture of foreign and domestically-controlled corporations may on occasion reduce the clarity of an association's collective view."[27]

According to Coleman, the consequences of this fragmentation are important. The system of business associations is best structured to deal with specific issues that arise at the sectoral and subsectoral level, and it is here that the most extensive and regularized consultations take place. The limitations of the system become apparent, however, when attention shifts to macroeconomic policy or broad questions of economic adjustment. Unable to strike compromises of the differences of view and interest within it, the business community tends to speak with many voices, agreeing more on broad ideological pronouncements than on detailed policy proposals. Coleman argues that governments tend to treat such advice less seriously, thereby completing a vicious circle of frustration between the public and private sectors. Moreover, Coleman continues, the weaknesses of Canadian business associations make some policy options — including an incomes policy on the European model — less feasible. Similarly, business is less capable of developing a common position on industrial strategy or trade policy. This fragmentation was visible for all to see during the massive consultative exercise on industrial policy launched in 1977. Separate task forces examined 23 sectors of the economy, each advancing its own policy recommendations. The cumulative result was a "wish list" of unconnected and often inconsistent proposals, and the "second-tier" consultative committee could not integrate them into a coherent strategy. As its report conceded:

> We acknowledge that if all of the tax recommendations in the Task Force reports were implemented at the same time, there would be such a massive reduction of government revenues that the results would be unacceptable. Governments will, therefore, need to assign priorities to the recommendations.[28]

As Langille observed, with no strong national organization,

> . . . the Canadian business community does not appear ready to strike compromises or engage in priority setting, nor are they willing or able to exercise control over their members. There is a stated reluctance to assume the responsibilities of government.[29]

There are signs that the business community is responding to the limita-

tions of its system of representation. Fournier's paper emphasizes the importance of the emergence of the BCNI and greater informal cooperation among business associations. The fact that BCNI represents many of the largest companies in Canada and that the heads of other general business associations are *ex officio* members of its policy committee has allowed it to play a greater coordinating role on macroeconomic issues. The change can be seen in the conduct of debates over incomes policies. In 1970, the Prices and Incomes Commission had to invite 250 individual business executives to Ottawa to enlist the business community in its program of voluntary restraint, and the Secretary of the Commission noted that even this number was held down "because of space limitations."[30] A decade later, the BCNI was playing a central role in coordinating such consultations. The process has become more focussed — and less public. Nevertheless, the associational system still has important limits. Without an integrated, national mechanism for hammering out clear positions, the business community often enters consultations with government and labour unable to advance detailed positions or to commit its members to specific courses of action. As a result, the responsibility for striking the balance among industrial interests falls more squarely on the shoulders of government.

This pattern of dispersed authority is repeated in organized labour. Canada lacks the comprehensive and centralized labour structures that sustain tripartism in Europe. In the first place, unionization levels are substantially lower in Canada. Organized labour is correspondingly weaker, both economically and politically, and the problem of how to represent the interests of unorganized labour in any consultative system is more controversial. More important, however, is the pluralistic nature of the Canadian labour movement. Whereas the West German labour movement consists of a total of 16 unions, the Canadian movement is highly fragmented: in 1984, there were 799 unions. Even counting only national and international unions, the total was 222, two-thirds of which had fewer than 10,000 members.[31] This fragmentation in the organization of labour is the counterpart of decentralization in the system of collective bargaining. While varying somewhat from industry to industry and region to region, the bargaining system is highly decentralized. Rather than negotiations being conducted on an industry, provincial or national basis, most bargaining is between a single union and a single employer in a single location.[32] Even taking into account informal linkages among units, the system still ranks as among the most decentralized of any country. Certainly the contrast with tripartite nations is stark:

> [Centralization] is minimal when compared to the nations of Scandinavia and continental Europe. In these countries, multiemployer structures are the rule. In Canada, only about 8 per cent of units and 25 per cent of workers

TABLE 1-1 Union Membership by Congress Affiliation, 1984

Affiliation	Union Membership
	(percent)
CLC	56.1
CNTU	5.8
AFL-CIO/CFL	6.0
CSD	1.5
CCU	1.1
AFL-CIO	4.3
Unaffiliated international	2.8
Unaffiliated national	19.7
Unaffiliated local	2.7

Source: Labour Canada, *Labour Organizations in Canada, 1984* (Ottawa: Minister of Supply and Services Canada, 1984), Table D.

> bargain under multiemployer structures, and a significant portion of these units are local in scope. Again this contrasts with Scandinavia and continental Europe where industry wide bargaining at the regional or national level is common. Only the United States and the United Kingdom exhibit comparable levels of decentralization.[33]

This fragmented structure generates a parallel pattern at the national level. The Canadian Labour Congress (CLC) is certainly the predominant central federation, and the only one well positioned to engage in broad national discussions. However, linguistic and ideological divisions, as well as conflicts between national and international unions, do sustain a number of separate federations, and the CLC cannot claim to speak for all organized labour, as Table 1-1 makes clear. Even more important is the distribution of power within the federations. In most unions, the real economic power — the power to organize and bargain collectively — rests firmly with the union locals, and is exercised within a tradition of considerable local autonomy. The central federation remains a voluntary association of unions, which regulates relations among affiliates and represents their collective interests to governments. Neither the executive of the CLC nor, indeed, the executives of affiliated unions have much ability to commit locals to movement-wide courses of action.

This structure does not, of course, preclude all consultation. The CLC can and does seek to influence government policy on a wide range of issues, both general and specific. But dispersed authority does limit the range of policy options that can emerge from such a process. This was seen clearly in the consultations over a voluntary incomes policy during the 1970s. Both the "consensus consultations" in 1974–75 and the "post-controls discussions" in 1976–77 foundered in part on the fact that the locus of union decision making in fact and in law in Canada is the local. As Waldie observes concerning the post-controls consultations:

> There was not then, as there still is not, any precedent in Canada for a union central adopting a wage negotiating guideline. The CLC does not have the internal machinery for assessing any such standard or for generating consensus around it. Thus, even if the CLC leadership had seen such a standard as being in the interest of its members, they would have been making a radical change in the purpose and practices of the Congress in endorsing it. They would have done so at very considerable risk to themselves. They had no mandate from the 1976 Convention to engage in this kind of activity, and would have been held accountable for their actions at the 1978 Convention.[34]

The experiences of the 1970s and early 1980s, especially increased political intervention in the form of wage controls, has generated some pressure for more centralization within the CLC in order to fight more effectively on the political front. But while the internal balance may be shifting marginally, Canadian labour remains much more fragmented than its European counterparts.

Thus, dispersed authority characterizes the representation of both business and labour. The contrast with the peak associations of Europe is clear. As an OECD study of consensus mechanisms emphasized, conflicts within both employer and employee communities are inevitable, but "their internalization and management by the peak organizations makes the task of building national consensus that much easier for governments."[35] In Canada, the burden falls more firmly on a state whose own authority is fragmented between levels of government. The structures of economic and political life in Canada meet few of the prerequisites for centralized coordination of our economic affairs through consultative mechanisms.

Formal structures are not the entire story, however. After all, institutional arrangements can be changed if the pressures are great enough. Political relationships among the participants are also critical to the consultative practices of a nation. As we have seen, one of the key factors in the emergence of European tripartism was the political strength of social democratic parties, which were closely allied with organized labour and sustained by the votes of manual workers. In such a context, the basic legitimacy of each of the three "social partners" is more firmly established. In addition, labour leaders were more likely to agree with the overall direction of economic and social policy. This facilitated their collaboration in the risky business of assuming joint responsibility for economic management.

In Canada, political dynamics are much less conducive to close collaboration. Electoral politics and the party system do not revolve primarily around class divisions. Religion, language and region remain more salient, and the most sensitive issues of social integration tend to be defined as involving territorial interests rather than economic groups. In comparison with most of Europe, organized labour and the political

left are much weaker at the national level. In this situation labour leaders often fear they would be at a major disadvantage in any tripartite process. Moreover, the close relationship between organized labour and the New Democratic Party (NDP) complicates the process. To enter into a powerful tripartite system might weaken the NDP, which would find it harder to criticize government policies sanctioned by the participation of organized labour. In effect, the CLC faces a constant choice between cooperation with the government of the day and its long-term political objectives, a more acute form of tension between functional and political representation than that experienced by the business community.

Panitch and McRae agree on the importance of the exclusion of the left from national political power. For Panitch, this is "the major missing condition," and McRae adds that it is "difficult to envisage stable tripartism in Canada without a concomitant political system of proportional representation in legislatures and power-sharing among political parties."

Fournier's paper, on the other hand, places greater emphasis on ideological and cultural barriers to a close integration of public and private decision making. Such collaboration is compromised from the outset, he argues, by the ideological divide between business and labour on such issues as the role of the state in economic life, general economic and social priorities, the status of trade unions, the importance of foreign investment, and so on. The extent of ideological compatibility actually required for successful collaboration is open to question, however. On the one hand, deep polarization does seem to preclude tripartism. For example, in countries such as Italy and France, with a large communist party and communist-led trade unions, collaborative exercises have been limited. On the other hand, there is certainly no need for absolute social consensus. Such ideological unanimity — were it ever to exist — would presumably reduce the need for consensus-building mechanisms. Moreover, the ideological differences between business and labour in countries such as Sweden, Norway and West Germany should not be underestimated.

What is critical is the acceptance of the legitimacy of the three social partners, a common agreement that each has an appropriate role in economic decision making. In Canada, however, lingering questions of legitimacy erode the prospects for collaboration. The position of labour is least secure. Since labour representatives lack the economic and political strength of many of their European counterparts, their role in consultation processes is particularly dependent on the status accorded to them by others. Labour leaders are well aware of divisions in public opinion about the appropriate role of unions in the economy. Business opinion is similarly divided. Most large firms have been unionized for some time and have worked out an accommodation with labour, but many smaller firms are not unionized and vigorously oppose initiatives

that appear to increase the acceptance of unionization and the status of unions in general. Long battles for acceptance have produced an adversarial approach to both collective bargaining and politics, which shapes its approach to consultation. As Waldie observes:

> Organized labour in Canada has a long and continuing history of confrontation. A tough adversarial stance is a well-tried tactic. There is, then, on the labour side a natural inclination to move back onto that stance, which in the past has worked, when consultation becomes difficult or dangerous.[36]

Business has less difficulty in establishing its legitimacy in Canadian eyes. As Coleman emphasizes, the critical importance of business decisions for the performance of the economy earns it an automatic place in any consultative process. Even here, however, the easy acceptance of the role of business that characterized the early postwar years has become strained. Changing social values have subjected business to greater scrutiny: consumer spokesmen, environmentalists, social groups and others actively challenge the views and the influence of business. The chorus of countervailing voices has grown stronger. The role of multinational corporations in Canada has also proved controversial. As the Task Force on Business/Government Interface noted, the extent of foreign ownership sometimes compromises the status of the business community in the eyes of governments and the public: "Business leadership, as is the case in leadership of any section of a total community, depends on a ready recognition by the public that its leaders are part of that community and that its interests are their interests."[37]

In addition to ambivalence about the status of participants, Fournier argues that Canadian attitudes and culture in general are hostile to corporatist modes of decision making. The dominant strains in our culture, in his view, are a vigorous individualism, a suspicion of interest groups as self-serving and subversive of democracy, and a scepticism about pervasive social and economic planning by the state, all of which undermine support for close integration of the state and economic interests. There is considerable debate on this point, however. Some authors have emphasized deferential and statist themes in Canadian tradition, and others have highlighted explicitly corporatist elements in the political thinking of important elements of Canadian society.[38] The impressionistic nature of such debates makes a resolution difficult, but much depends on the standard of comparison. The individualist themes in Canadian life are undoubtedly less clearly marked than are corresponding themes in the United States. Fournier is probably correct, however, in sensing that Canadians would be uneasy about the formal systems of élite accommodation characteristic of many European political systems. Certainly, a powerful tripartism would not sit well with the wide range of social and other groups that increasingly populate Canadian politics.

None of this precludes consultation, but it does introduce substantial caution and ambivalence into the views of all of the participants, and general suspicion has crippled a number of consultative exercises in the recent past.[39] Labour is undoubtedly the most ambivalent about the value of consultation. Elements within the leadership of the CLC have given strong support to greater involvement in a variety of consultative bodies.[40] Within the labour movement more generally, however, there remains widespread scepticism about anything but collective bargaining as a means of advancing the interests of its membership.

Canadian Practice

Given this institutional and political context, it is hardly surprising that relations between the state and economic interests in Canada form a sharp contrast to the tripartite experience of parts of Europe. Mechanisms of joint decision making are virtually unknown in Canada.[41] In contrast to the norm of mutual agreement implicit in the notion of a "social contract," relations between Canadian governments and economic interests have remained consultative in nature. Moreover, the Canadian approach to consultation has two striking characteristics. First, consultative practices have historically tended to be fragmented and informal. There have been few attempts to sustain a structured, comprehensive dialogue between the public and private sectors. Secondly, the approach adopted in Canada has, until recently, encouraged the separate representation of each interest, with business and labour operating through different channels. We have placed much less emphasis on consensus-building mechanisms that bring relevant representatives of business, labour and government together to develop a common understanding of important economic issues. Indeed, the very language of the "three social partners," so common in some European societies, finds little resonance in Canada.

The fragmented, competitive nature of consultation can be seen in the relations between business and government. There is a tremendous amount of interaction between the public and private sectors. Managing the relationship has become a sizeable industry in its own right, involving a multitude of business associations, a growing army of professional consultants and specialized legal personnel, officials responsible for government relations in major corporations, and an increasing proportion of the time of most chief executive officers. Many of these are in almost daily contact with public officials, generating hundreds of thousands of contacts between the public and private sectors each year.

Such a decentralized system functions most efficiently when dealing with narrow problems. It is sufficiently diverse and flexible to accommodate an endless series of specific issues created by the growing interdependence of business and government. Most contacts concern the

ongoing administration of existing policies or the revision of regulations, and revolve around the fairly specific and often technical problems that face particular subsectors of the economy or even individual firms. At this level, the contacts are often continuous and close. The limitations of the system, however, are exposed quickly when attention shifts to issues concerning a broad sector of the economy or the management of the economy as a whole. As Coleman's paper emphasizes, such a fragmented process does not contribute to focussed consultation over the general framework of policies that govern the nation's economic affairs.

The informality of consultation in Canada is also particularly evident at this level. There are no formal structures to stimulate continuing, comprehensive consultation over broad economic policy. In the case of the business community, such structures might have seemed redundant in earlier periods. The close integration of government and business is a well-established theme in writing on Canadian history; and even into the postwar era, consensus among business and government leaders was facilitated by their relatively similar backgrounds and social views, a tradition perhaps best symbolized by C.D. Howe. This close relationship eroded as both business and government became more complex in the decades that followed. As Reg Whitaker has noted, the adoption of Keynesian economic policies and expensive social programs resulted in "a certain amount of alienation exhibited by big business towards both major parties in their moderate leftward policy turn."[42] Such broad ideological tensions were reinforced on a daily basis, as the expansion of the role of government at both levels in economic affairs has generated many more points of contact and friction. In addition, changes in the internal decision-making process of the federal government have disrupted traditional contacts between business executives and line departments close to their immediate concerns. The growing importance of Cabinet committees and central agencies has reduced the autonomy of individual ministers and their departments, and made the task of outside interests more difficult.[43]

The weakening of such traditional linkages and the absence of compensating formal structures means that consultation is less comprehensive and more episodic. Flurries of consultation — a dialogue in crisis approach — occasionally fill the gap. For example, the 1982 budget and the "6 and 5" program that it launched were preceded and followed by waves of private consultations initiated by the government.[44] Such ad hoc discussions in the middle of a crisis are not the same as a sustained, predictable relationship.

The second major characteristic of our practices, until recently at least, has been a relative lack of interest in attempts to build consensus among the three "social partners." Organized labour's interests have traditionally been represented through separate channels from those of business. Moreover, labour has participated in a much narrower range of

issues, and has remained marginal to the formulation of broad economic policy. As Waldie has emphasized, "Governments have displayed reluctance to accept labour on an equal footing with business where national economic issues are concerned."[45] Various advisory bodies were established during the postwar period, but from labour's perspective the results have been mixed at best. As part of its categorical opposition to the introduction of the Anti-Inflation Program of 1975, the Canadian Labour Congress formally severed the institutional consultative links it had with the government. It relinquished its membership on the Economic Council of Canada and withdrew from the Canada Labour Relations Council. Almost a decade later these formal linkages have yet to be reinstated.

In the past decade, however, greater emphasis has been placed on consensus building among business, labour and government, a trend that is examined in detail in Fournier's paper.[46] Experiments in this direction gained momentum as a response to the economic turmoil and conflicts of the 1970s, especially the intense inflationary pressures, the sharp increase in strike activity, the imposition of statutory wage and price controls, and the growing international economic pressures on the Canadian economy. During the controls period, business and labour discovered a shared frustration because of their lack of influence on government, and a mutual interest in protecting themselves from such unilateral intervention by the state. Each sought to equip itself to influence and constrain public policy more effectively. The CLC leadership sought greater authority within the organization to engage in policy action, the BCNI emerged as a spokesman for large corporations, and the two organizations worked toward joint positions on several issues. Moreover, in the aftermath of the conflicts over controls, governments were also happy to emphasize "social consensus."

The result has been a series of experiments involving either tripartite representation or a bipartite relationship between business and labour. Recent examples include the 23 task forces established in 1977 to investigate the major sectors of Canadian manufacturing and the Second Tier Committee, which sought to consolidate their work; the Major Projects Task Force initiated in 1978 to examine the benefits expected to flow from large-scale resource projects; and the Canadian Labour Market and Productivity Centre, which was established in 1984 to advise governments on manpower and productivity. In addition, several provinces have created consultative committees on economic policy or industrial relations, and Quebec has been particularly active in holding sectoral conferences and *grands sommets* on the economic problems of the province.

Not all of these mechanisms have been equally successful, and none has fundamentally altered the general direction of Canadian economic policy. Indeed, they have been reasonably marginal to the formation of

general economic policy. Nevertheless, they all sought to involve business and labour in a search for common understanding on important issues, and they have generated a body of experience that could, in the future, form the foundation of an extension of tripartite consultation on an incremental basis. To this end, Fournier's paper draws out a number of guidelines that should shape such initiatives, to which might be added Coleman's prescriptions for the structure of business associations.

Whether such initiatives represent a growing trend that will increasingly pervade consultative processes in Canada is unclear. The economic traumas of the 1980s pose conflicting portents. Fournier argues that the depth of the recession and the growing anxiety about international economic adjustments have shaken traditional attitudes, eased ideological polarization, and increased the desire for consensus and collaboration. The gravity of our economic situation, he argues, has led business, labour and government to a new "national solidarity," which could sustain greater cooperation in shaping economic policy.

Crises can also exacerbate conflict, however. Other supporters of tripartite mechanisms worry that such solidarity will quickly dissolve if business and governments adopt policies that organized labour sees as threats to its basic interests. Roy Adams, for example, points to two such developments. The first was the imposition of wage controls on the public sector, which business groups such as the BCNI supported despite vigorous condemnation by the CLC. The second has been the actions of some provincial governments, especially in western Canada, that have been designed to weaken labour organizations. In Adams' words, "trade union organizations which consider themselves to be victims of right-wing assaults on their integrity are not too likely to be receptive to pleas that they be cooperative in the public interest."[47] Clearly, the recession of the 1980s generated conflicting currents in the consultative world.

International portents are equally ambiguous. The erosion of tripartite processes in several European nations has already been noted. In addition, several countries have elected conservative governments committed to significant reductions in the role of the state, and such governments have been less interested in consensual politics and tripartite consultation, fearing that such processes would serve only to constrain the kinds of change they seek.[48] Australia stands, however, as a counter-example to this prevailing trend. As in the European experience, the election of a Labour government closely associated with a strong and centralized trade-union movement smoothed the way for tripartite politics. In April 1983, a National Economic Summit of representatives from business, labour and both the federal and state governments was held on the floor of Parliament, and was able to ratify a detailed incomes policy in return for a more expansive fiscal framework for the government.

The future of consultative relations between the Canadian state and

economic interests is probably better foreshadowed by the domestic attempt at economic summitry held by the federal government in March 1985. The national economic conference represented a microcosm of our consultative system. In contrast to Australian tripartism, the conference was a multilateral forum attended by 136 representatives of economic, social, religious and cultural groups, but not by provincial governments. Given its structure, the conference was inevitably a forum of debate rather than an instrument of consensus.

Conclusions

From the very origins of the nation state in the seventeenth and eighteenth centuries, the central duty of the state has been the maintenance of social order and the preservation of territorial integrity. Historians remind us that over the centuries since then, the maintenance of social order has entailed considerable use of force and repression, as well as accommodation and reform. In the contemporary democratic era, however, social stability has been pursued primarily through attempts to incorporate emerging social forces — classes, regions, cultures — and integrate them into the larger community. Nevertheless, as the papers in this volume confirm, the ways in which the democratic state fulfils this integrative role vary considerably from country to country, depending on that state's international context, the intensity of the various divisions within the society that it seeks to manage, and the political and institutional framework through which it must operate.

The relations that prevail between the state and economic interests in any country are enormously sensitive to this larger environment. The close integration of business, labour and government implicit in European tripartism reflected a particular constellation of factors: international vulnerability, the emergence of powerful labour movements, the political strength of social democratic parties, and the centralization of authority in economic and government institutions. In Canada, the economy is an open one, with all of the vulnerability which that entails, organized labour is weaker, class differences are less politicized, and the NDP is a minor party at the national level. The pressures formally to integrate business and organized labour into central, socioeconomic policy making have therefore proved less compelling. Moreover, the fragmentation of economic and political authority complicates the close integration of the state and all economic interests.

Whether Canada is well served by its decentralized and informal approach to consultation is the subject of intense debate. Advocates of a closer collaboration between public and private decision makers insist that Canada pays a high price for its casual ways. Clearly, it forgoes whatever economic and social advantages other nations may have derived from tripartite procedures. Important instruments of economic

management lie beyond our reach. With little prospect of developing a voluntary incomes policy, governments respond to inflationary pressures by choosing between equally draconian measures: severe demand restraint, with all the attendant social costs in terms of unemployment; or statutory wage and price controls, with all their costs to the social fabric of the country. In similar fashion, advocates of a coordinated industrial strategy lament our limited capacity for concerted action, insisting that consensual processes give others a significant advantage in the Darwinian economic struggle among nations.

Yet others see real value in decentralized, dispersed and competitive initiative. Such a system favours experimentation and facilitates adjustment to economic change. Critics of interventionist industrial policies, echoing Mancur Olson, fear that elaborate collaboration impedes essential adjustment by inevitably over-representing the interests of older, troubled industries compared to the industries of the future, thereby tying government ever more firmly to those seeking protection from change. From their perspective, flexibility and growth are better served by competition than by consensus. In effect, such critics ask us to place our faith in a market-led, rather than a state-led, adjustment process, and to accept the bumpiness of the ride as part of the price of progress. Finally, still others defend dispersed decision making on political grounds, arguing that tripartism would be incompatible with our regional and cultural pluralism, or that it would accentuate the élitist dimension of Canadian politics.

Whatever the intrinsic merits of such competing views, the contest is fundamentally unequal. Opponents of consensus decision making are favoured by the core features of the Canadian economy and political system. If the past is any guide to the future, our consultative practices will remain fragmented, pluralistic and competitive, and business will retain an advantage over labour in the process. Tripartite consensus mechanisms will probably maintain a niche in the system, expanding when politics are propitious, contracting in more hostile times. But the nature of the economic and political structures of Canada suggests that conflict and consensus will continue to mingle openly in the politics of economic management.

Notes

I would like to thank Alan Cairns, Peter Hall, Ken McRae and Craig Riddell for comments on earlier drafts of this paper, and Greg Ioannou for his careful editing.

1. G. Lehmbruch, "Liberal Corporatism and Party Government" in *Trends Towards Corporatist Intermediation*, edited by P. Schmitter and G. Lehmbruch (Beverly Hills: Sage, 1979), p. 153.
2. P. Malles, *The Road to Consensus Policies: Challenges and Realities* (Ottawa: The Conference Board of Canada, 1976), p. 3.
3. S. Berger, "Introduction," in S. Berger, ed., *Organizing Interests in Western Europe* (Cambridge: Cambridge University Press, 1981), p. 2.
4. M. Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982). For a recent assessment of Olson's argument, see John McCallum and André Blais, "Government, Special Interest Groups and Economic Growth," in *Responses to Economic Change*, volume 27 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
5. For useful discussions, see P. Schmitter, "Still the Century of Corporatism?" in *Trends Towards Corporatist Intermediation*, edited by P. Schmitter and G. Lehmbruch (Beverly Hills: Sage, 1979); and A. Stepan, *The State and Society: Peru in Comparative Perspective* (Princeton, N.J.: Princeton University Press, 1978), Part One.
6. P.J. Katzenstein, "The Small European States in the International Economy: Economic Dependence and Corporatist Politics," in *The Antimonies of Interdependence: National Welfare and the International Division of Labour*, edited by J.G. Ruggie (New York: Columbia University Press, 1984). In a more recent analysis, Katzenstein has traced the origins of corporatist relationships in these nations to the catastrophic conditions of the 1930s and 1940s. "In those two decades business and unions, as well as conservative and progressive political parties, became convinced that they should impose strict limits on domestic quarrels, which they viewed as a luxury in a hostile and dangerous world. Since the mid-1950s the requirements of international competition have helped to maintain that conviction." (*Small States in World Markets: Industrial Policy in Europe*, Ithaca, N.Y.: Cornell University Press, 1985, p. 30). For a somewhat broader discussion of the importance of vulnerability in this context, see also C. Maier, "Preconditions for Corporatism," in *Order and Conflict in Contemporary Capitalism*, edited by J.H. Goldthorpe (New York: Oxford University Press, 1984).
7. S. Krasner, "State Power and the Structure of World Trade," *World Politics* (1976), p. 319.
8. This approach has a special relevance in countries with small, open economies. In such countries, national prosperity depends heavily on international competitiveness in the "exposed" sectors of the economy, which produce for export markets or face foreign competition in the domestic market. The tripartite approach to such an economy relies on a voluntary incomes policy to ensure that wages and prices in the exposed sectors rise at a rate no greater than the international rate of inflation and the domestic rate of productivity growth in those sectors. For a discussion of this "Scandinavian model" and its application in Austria, see H. Frisch, "Lessons from Recent Macroeconomic Experience in Austria," in *Foreign Macroeconomic Experience: A Symposium*, volume 24 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1986).
9. See A. Przeworski and M. Wallerstein, "The Structure of Class Conflict in Democratic Capitalist Societies," *American Political Science Review* (1982): 215–38.
10. See also K. Faxen, "Incomes Policy and Centralized Wage Formation," in *The European Economy: Growth and Crisis*, edited by A. Boltho (Oxford: Oxford University Press, 1982); and B. Headey, "Trade Unions and National Wage Policies," *Journal of Politics* (1970):407–39.
11. For a different interpretation of Switzerland as a "corporatist" nation, see Peter Katzenstein, *Corporatism and Change: Austria, Switzerland and the Politics of*

Industry (Ithaca, N.Y.: Cornell University Press, 1984). In part, the contrasting interpretations flow from a focus on different aspects of Swiss life. Katzenstein emphasizes the consensual pattern of politics, the extensive cooperation between business and labour, and the pervasive ideology of "social partnership." McRae, on the other hand, is concerned with explicitly tripartite mechanisms, and Katzenstein agrees that these are lacking. With a comparatively non-interventionist state, collaboration proceeds largely on a bilateral rather than a tripartite basis; there is no incomes policy; collective bargaining is decentralized; and "on questions of economic policy, . . . the Swiss unions and the political Left play an insignificant role." (p. 147).

12. See also M. Cooper, *The Search for Consensus* (Paris: OECD, 1982); and R.J. Flanagan, D.W. Soskice and L. Ulman, *Unionism, Economic Stabilization and Incomes Policies* (Washington, D.C.: Brookings Institution, 1983).
13. For economists' views, see especially J. McCallum, "Inflation and Social Consensus in the Seventies," *Economic Journal* (1983): 784–805, and "Wage Gaps, Factor Shares and Real Wages," in L. Camfors, ed., *Trade Unions, Wage Formation and Macroeconomic Policy* (Stockholm: Institute for International Economic Studies, University of Stockholm, forthcoming); M. Bruno and J. Sachs, *Economics of Worldwide Stagflation* (Cambridge: Harvard University Press, 1984); H. Frisch, "Lessons from Recent Macroeconomic Experience in Austria;" and C. Riddell, "Dealing with Inflation and Unemployment in Canada: Options and Their Consequences," in *Dealing with Inflation and Unemployment in Canada*, volume 25 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
14. D. Cameron, "Social Democracy, Corporatism, and Labour Quiescence: the Representation of Economic Interest in Advanced Capitalist Society," in *Order and Conflict in Contemporary Capitalism*, edited by J. Goldthorpe (New York: Oxford University Press, 1984). See also M. Schmidt, "Does Corporatism Matter? Economic Crisis, Politics and Rates of Unemployment in Capitalist Democracies in the 1970s," in *Patterns of Corporatist Policy-Making,* edited by G. Lehmbruch and P. Schmitter (Beverley Hills; Sage, 1982).
15. This part of Martin's argument builds on R. Keohane, "The World Political Economy and the Crisis of Embedded Liberalism," in *Order and Conflict in Contemporary Capitalism*, edited by J. Goldthorpe (New York: Oxford University Press, 1984). See also J.G. Ruggie, "International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order," in *International Regimes*, edited by S. Krasner (Ithaca: Cornell University Press, 1983).
16. Faxen, "Incomes Policies and Centralized Wage Formation," p. 367.
17. D.A. Hibbs, Jr., "On the Political Economy of Long-run Trends in Strike Activity," *British Journal of Political Science* (1978): 153–175; D. Cameron, "Social Democracy, Corporatism and Labour Quiescence"; W. Korpi and M. Shalev, "Strikes, Industrial Relations and Class Conflict in Capitalist Societies," *British Journal of Sociology* (1979): 164–87; and W. Korpi and M. Shalev, "Strikes, Power and Politics in the Western Nations, 1900–1976," in *Political Power and Social Theory, I*, edited by M. Zeitlin (Greenwich: JAI, 1980).
18. Malles, *The Road to Consensus Policies*, p. 5.
19. P. Schmitter, "Interest Intermediation and Regime Governability in Contemporary Western Europe and North America," in *Organizing Interests in Western Europe*, edited by S. Berger (Cambridge: Cambridge University Press, 1981). Peter Katzenstein also insists that by the criterion of political performance, the corporatist nations of Europe are exemplary success stories: "Through their policies, political leaders in the small European states have maintained the legitimacy of the political arrangements governing their societies." (*Small States in World Markets*, p. 28).
20. H.L. Wilensky, *The New Corporatism, Centralization and the Welfare State* (London: Sage, 1976); "Democratic Corporatism, Consensus and Social Policy," in *The Welfare State in Crisis* (Paris: OECD, 1981); and "Leftism, Catholicism and Democratic Corporatism: The Role of Political Parties in Recent Welfare State Development," in *The Development of the Welfare State in Europe and America*, edited by P. Flora and

A.J. Heidenheimer (New Brunswick, N.J.: Transaction, 1981); R. Mishra, *The Welfare State in Crisis: Social Thought and Social Change* (Brighton: Wheatsheaf Books, 1984). For a somewhat different view, see D. Hibbs, Jr. and H. Madsen, "Public Reactions to the Growth of Taxation and Government Expenditure," *World Politics* (1980–81): 413–35.

21. D.A. Hibbs, Jr., "On the Political Economy of Long-run Trends in Strike Activity," p. 154.
22. Dan Usher has argued that the tensions generated by political controls over incomes exact a long-term political cost in the form of instability and the possible disintegration of democracy itself. See his *The Economic Prerequisite to Democracy* (Oxford: Blackwell, 1981). On these themes, see also F. Hirsch and J. Goldthorpe, eds. *The Political Economy of Inflation* (Oxford: Martin Robertson, 1978).
23. Flanagan et al., *Unionism, Economic Stabilisation and Incomes Policies*, p. 686.
24. Ibid., p. 81; also H. Frisch, "Lessons from Recent Macroeconomic Experience in Austria," and R. Mishra, *The Welfare State in Crisis*, p. 113.
25. G. Lehmbruch, "Liberal Corporatism and Party Government."
26. For a fuller discussion, see W. Coleman and W. Grant, "Regional Differentiation of Business Interest Associations: A Comparison of Canada and the United Kingdom," *Canadian Journal of Political Science* (1985): 3–29. For another general discussion, see W. Coleman, "Analyzing the Associative Action of Business: policy advocacy and policy participation," *Canadian Public Administration* (1985): pp. 413–33.
27. Task Force on Business/Government Interface, *Report* (Ottawa: Department of Industry, Trade and Commerce, 1976), p. 24.
28. *A Report by the Second Tier Committee on Policies to Improve Canadian Competitiveness* (Ottawa: Department of Industry, Trade and Commerce, 1978), p. 2.
29. D. Langille, *From Consultation to Corporatism?* (Ottawa: unpublished Masters thesis, Carleton University, 1982), p. 104.
30. G.A. Berger, *Canada's Experience with Incomes Policy, 1969–1970* (Ottawa: Prices and Incomes Commission and Information Canada, 1973), p. 24.
31. Canada, Department of Labour, *Labour Organizations in Canada, 1984* (Ottawa: Minister of Supply and Services Canada, 1984).
32. For a general discussion, see J. Anderson and M. Gunderson, *Union-Management Relations in Canada* (Toronto: Addison-Wesley, 1982), chap. 8.
33. Robert J. Davies, "The Structure of Collective Bargaining in Canada," in *Canadian Labour Relations*, volume 16 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
34. K.G. Waldie, "The Evolution of Labour-Government Consultation on Economic Policy," in *Labour-Management Co-operation in Canada*, volume 15 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
35. Cooper, *The Search for Consensus*, p. 65.
36. Waldie, "The Evolution of Labour-Government Consultation on Economic Policy."
37. Task Force on Business/Government Interface, p. 24.
38. See, for example, R. Presthus, *Elite Accommodation in Canadian Politics* (Toronto: Macmillan, 1973); L. Panitch, "Corporatism in Canada," *Studies in Political Economy* (1979): 43–92; R. Whitaker, "The Liberal Corporatist Ideas of Mackenzie King," *Labour* (1977): 137–69; W.T. Stanbury, "A Framework for the Analysis of Business-Government Relations in Canada," in *Canadian Cases in Business-Government Relations*, edited by M.C. Baetz and D.H. Thain (Toronto: Methuen, 1985).
39. For example, suspicion of political motives clearly complicated the "post-controls" discussions in 1977. A member of the CLC executive expressed their view as follows: "As time went on, we became more convinced that attempts were being made . . . to manipulate us, not to serve the country, but to serve partisan interests of the government and the Liberal Party." Quoted in Waldie, "The Evolution of Labour-Government Consultation on Economic Policy."

40. See Langille, *From Consultation to Corporatism.*
41. There are some exceptions. Most labour-relations boards involve both labour and management representatives, as well as third-party members, in the administration of labour-relations statutes. And during World War II, both private sector interests were represented on the boards that administered wage controls.
42. R. Whitaker, "Images of the State in Canada," in *The Canadian State: Political Economy and Political Power*, edited by L. Panitch (Toronto: University of Toronto Press, 1977), p. 59. See also R. Whitaker, *The Government Party* (Toronto: University of Toronto Press, 1977) and J.L. Granatstein, *The Politics of Survival* (Toronto: University of Toronto Press, 1967).
43. Tensions in the business-government relationship have spawned a rapidly growing literature and a variety of research programs, conferences and institutes. See James Gillies, *Where Business Fails* (Montreal: Institute for Research on Public Policy, 1981); M.C. Baetz and D.H. Thain, *Canadian Cases in Business-Government Relations* (Toronto: Methuen, 1985); K.J. Rea and N. Wiseman, eds., *Government and Enterprise in Canada* (Toronto: Methuen, 1985); V.V. Murray and C.J. McMillan, "Business–Government Relations in Canada: A Conceptual Map," *Canadian Public Administration* (1983): 591–609; N. Islam and S.A. Ahmed, "Business Influence on Government: A Comparison of Public and Private Sector Perceptions," *Canadian Public Administration* (1984): 87–101.
44. D. Langille, "Consultations in 1982–An Ad Hoc Effort to Restore Confidence" (Ottawa: Unpublished paper prepared for the Science Council of Canada, 1983).
45. Waldie, "The Evolution of Labour-Government Consultation on Economic Policy." See also Presthus, *Elite Accommodation in Canadian Politics.*
46. See also Waldie, "The Evolution of Labour-Government Consultation on Economic Policy"; J. Crispo, *National Consultation: Problems and Prospects* (Toronto: C.D. Howe Institute, 1984); and R. Adams, "Industrial Relations and the Economic Crisis: Canada Moves Towards Europe" (unpublished paper, 1984).
47. Adams, "Industrial Relations and the Economic Crisis," p. 28. See also M. Thompson, "Restraint and Labour Relations: The Case of British Columbia," *Canadian Public Policy* (1985): 171–79.
48. Britain stands as the clearest example. See C. Leys, *Politics in Britain* (Toronto: University of Toronto Press, 1983), p. 279.

Part One

Comparative Perspectives

The Tripartite Experience

LEO PANITCH

Introduction

Consideration of the viability and desirability of institutionalizing tripartite arrangements among business, labour and government leaders for their collaboration in the formation, legitimation and administration of economic policy is not new in Canada. Nevertheless, the necessity for a sober examination of the possibilities and limitations of tripartism has perhaps never been greater. Most "practical" alternatives to what are normally labelled "monetarist" or "neo-conservative" policies appear to rest on notions of extensive tripartite collaboration in relation to incomes policies, employment planning and investment strategies. Very often the alleged success of certain European countries in maintaining relatively high levels of employment and growth is attributed to policies based on their institutionalized system of tripartite collaboration. This study attempts to assess the actual experience of European tripartism from the point of view of its lessons for contemporary Canadian conditions and requirements.

It should be pointed out immediately, however, that in undertaking this study foremost concern will be given to avoiding what can only be called the "Pollyanna-ish" quality that has pervaded many reports of this kind in the past. Relying extensively on official accounts of tripartite institutions, these reports have often produced anodyne accounts of "social consensus" in a manner reminiscent of those sterile but glowing official Canadian accounts of our success as a binational, multicultural, federal state that are designed to impress foreign observers; these pass over the tensions, contradictions and conflicts that compose our lived experience as Canadians. Reports on European tripartism, moreover,

have tended to treat their objects of study as so many institutional variants on a stationary "model" rather than as actual historical practices full of the temporal and social conditionality of *real* (as opposed to *ideal*) political and economic arrangements. This approach is especially important to avoid in a period characterized by a transition from economic growth and stability to one of crisis and insecurity.

It is scarcely surprising that such approaches to tripartism have yielded superficial results. In terms of the applicability of European institutions to the very different conditions of Canada, recommendations have often exhibited sheer voluntarism. (One study for the Ontario Department of Labour in 1977 actually said it: "When there is will, there is a way").[1] Others have tried, in Procrustean fashion, to shrink the European experience so that it might fit the Canadian bed. Thus one recent book is largely taken up with describing and drawing inspiration from the voluntary consensual arrangements of European tripartism, but it goes on to advocate for Canada that very thing — statutory wage controls — that those European systems had spent three decades trying to avoid — indeed, they had built their "consensus" upon this very avoidance.[2]

As for the actual account of European tripartism itself, as much is left to be desired. Evidence of conflict is either ignored or read out as an aberration from a normal trend, rather than examined in terms of its causes and its implications for tripartism's capacity to cope with economic crisis and programmatic dissonance. In a number of instances, this approach has produced particularly unfortunate results. Thus the 1977 study mentioned above actually recorded that "no interested party in Germany is thinking of abandoning the established forms of tripartite cooperation"[3] *in the very year* that the showpiece of West German tripartism, Concerted Action, fell apart. A 1984 study relies on comparative strike data as proof of Sweden's "social consensus," but treats the 4.5 million days lost in the general strike and lock-out of 1980 as merely an "extraordinary aberration."[4] The reason for the failure to examine systematically the evidence for and the basis of conflictual trends in European tripartism appears to lie in the assumption that what one author has called "the necessary institutions and habits of collaboration"[5] are inertial rather than conditional. The result is that Canadian advocates of tripartism are ending up with egg on their faces. To be asked to look to Germany or Sweden in 1984 means that we shall see the prolonged and bitter strike in the West German metal industry over the 35-hour week and the breakdown in Sweden of the centralized wage negotiation that has been the centrepoint of the Swedish social consensus in the post-war era. What dream world, it will be asked, are we living in?

There are, indeed, certain dangers inherent in taking off our rose-coloured glasses. Advocates of the tripartite model of "social con-

sensus" are seen to represent in Canada — as in most other advanced capitalist societies — the foremost proponents of a "practical" alternative to monetarist or neoconservative policies. The "post-Keynesian" concern to demonstrate to the mass public, as well as to businesspeople and politicians, that reflation is possible without inflation is not to be lightly dismissed. In so far as a sober look at European tripartism reveals the crisis of Keynesian/social democratic practice, one may inadvertently be strengthening the hand of those who promote reactionary "solutions" with their simultaneous orientation toward "market freedom" and the social and political coercion entailed in mass unemployment, social service cutbacks and restrictions on trade-union and other democratic rights. Faced with such choices, it would be quite wrong to pretend that values do not intrude in these matters: indeed, they intrude deeply into the various allegedly technical options advanced by economists. Yet ethical choices founded on weak cognitive grounds are unlikely to carry us very far. If European tripartism is in crisis as a political mechanism and ideological practice — and if part of the reason for this is not only its inability to stave off the economic crisis, but that it was never quite what it was cracked up to be — then we had better take account of this reality. Whatever their good intentions, those who advocate solutions from the point of view of the needs of labour, the unemployed, the poor may be blocking advance in so far as moving forward requires popular mobilization instead of, or at least in advance of, tripartite discussion in order to change the *agenda* of Canadian politics and to make "practical" what currently appears to be impractical, according to the strictures of today's conventional wisdom and the actual narrowness of the choices afforded by Keynesianism and monetarism in today's world.

Tripartism in Historical Perspective

There was Life before Keynes: Corporatism and Liberal Democracy

The ideal of social harmony between capital and labour is as old as industrial capitalism itself. It is therefore useful to maintain some historical perspective in relation to the viability of contemporary attempts to reconcile class conflicts in the face of the contradictions of capitalist production and distribution.

In the 19th century, the goal of bringing the representatives of workers and employers together under the aegis of the state was perhaps most explicitly enunciated in corporatist thought, and it was conceived, interestingly enough, as a means of forestalling the evolution of liberal democracy. The burning question of politics in the liberal, but undemocratic, capitalist societies of the 19th century was what was to be

done with the working classes. The answer was finally given, after long struggles that lasted well into the 20th century, in terms of the two central elements of liberal democracy: mass suffrage and freedom of association. Mass suffrage involved the attribution of full citizenship rights in the public sphere to the non-propertied worker so that he or she might be represented as an individual in the state. Freedom of association, on the other hand, involved establishing the collective rights of workers to bargain with and strike against their employers in the private sphere of the labour market. Corporatists in the 19th century opposed both these principles as means of dealing with the "workers question." They sought instead to establish an "estates constitution" reminiscent of the feudal state whereby "functional" vocational or industrial associations of workers and employers would have both representational and administrative responsibility for the state. It was presumed that in this way the individual competition and the class conflicts of liberal market society would be avoided, and the class hierarchy and "organic unity" of the social order would be maintained.

Although corporatism gained no little ideological currency among conservative social forces in a number of late-industrializing Catholic countries, it was clear by the late 19th century (especially when the Church began to encourage the formation of confessional unions as a means of providing its own alternative to socialist-inspired unionism) that freedom of association in the form of the autonomy of workers' associations from employers and the state was being achieved. From now on the search for labour-capital consensus at the level of the state would either take the form of the voluntary integration of independent trade unions into public or quasi-public institutions; or it would take the form, as in the case of the fascist revival of corporatism, of the destruction of independent trade unionism and the coercive imposition of "labour fronts" as state agencies of social control — in other words the abrogation of liberal democracy itself. It is, of course, with the former case of a "tripartite corporatism" within the framework of the freedom of association of liberal democracy that we are concerned in this paper.

Given that tripartism has come today to be more commonly associated with Northern Europe, it is interesting to note the prevalence in the early years of this century of "tripartite consensus-building" notions among labour and business leaders in the United States. While European trade-union leaders were in the process of attaching themselves to the emergent mass social democratic parties as their main political preoccupation in the period before World War I, the "apolitical" American Federation of Labour, under Sam Gompers, joined with major industrialists to advocate tripartite corporatist ideas through the influential National Civic Federation. These ideas temporarily came to fruition in the tripartite representation that was a feature of the War Industries Board and other government agencies during World War I.

Mackenzie King's *Industry and Humanity* (1918) revealed the influence of these ideas in Canada, although labour representation in public agencies during the Great War in Canada was a poor facsimile of the American version.

In any case, when the labour shortage ended after the war, and when the union leadership's collaboration was repudiated in the wave of worker militancy that immediately followed, both government and business in North America soon lost interest in tripartism. After the *laissez-faire* and anti-union decade of the 1920s, tripartite corporatist and economic-planning notions were briefly revived as an aspect of the *National Recovery Act* that inaugurated Roosevelt's New Deal in 1933, but the decade-long battle American business waged against both the New Deal and the CIO led to Roosevelt's abandonment of the idea of national planning by the mid-1930s and to the confinement of the "labour question" in American politics very largely to the narrow sphere of constructing a legal framework for collective bargaining. Even the explicitly tripartite corporatist proposals that the CIO advocated as a basis for the administration of production during the Second World War were rejected by a government that, while it mouthed the rhetoric of a tripartite war effort, in fact relegated labour leaders to a minor role in the War Production Board. As for Canada, as I have recounted elsewhere, actual tripartite developments in the interwar years were few and far between, despite some visibility of corporatist ideas in this period; and even during World War II, when labour leaders initially clamoured to cooperate in wartime economic planning bodies, Canadian business's hostility to labour effectively ruled out, as King himself lamented, tripartite arrangements of much significance or postwar relevance.[6]

In Europe, by contrast, it was precisely in the interwar years that much more interest was apparent in institutionalized tripartism. The split in the Second Socialist International, induced by the collaboration of most national trade-union and socialist party leaders on the side of their respective governments in World War I, laid the basis for developments during the War similar to those that had occurred in America. More important, after the War, the notion of "functional representation" gained considerable currency as a result of proposals for advisory "parliaments of industry." The initiative was taken in this respect by the new German and Austrian republics, where national economic councils were developed as reformist alternatives to the revolutionary example of the Soviets. Although this development was now inspired as much by social democratic parties and leading industrialists as by Catholic bodies, the corporatist institutions established in the new republics proved of little salience in the long run. Industrialists seemed to lose interest in them once the revolutionary threat subsided, and by the mid-1920s, when the social democratic parties were back in opposition, the economic councils could be properly characterized as examples of a "failed corpo-

ratism." In 1937, an American political scientist wrote an apt assessment of the Weimar Republic's Federal Economic Council:

> The Federal Economic Council was to deliberate on all bills of economic or social importance submitted by the government or otherwise. It could even initiate such bills. From the viewpoint of personnel the Council was of the highest order, in fact a panel of the best men available in the various fields of economic life. In practice, however, it became in due course a body of purely consultative character to which mot the slightest political weight was attached. At no time did the work attract even a modicum of popular attention. It exercised no influence whatever on the course of political events. . . . In spite of the intentions of its promoters to make it a broker between capital and labour, the real social forces constantly moved over its head. . . . When Hitler, in 1933, abolished the whole institution, nobody paid heed to it, and it was forgotten long before its legal death.[7]

Tripartism in the Full Employment Era: 1945 and All That

The "failed corporatisms" of the interwar years are, of course, now largely forgotten or ignored by those who seek to build institutions of government, business and labour collaboration to secure "economic adjustment" and overcome adversarial industrial conflict. They draw inspiration from a subsequent experience, associated not with the politically polarized and crisis-ridden interwar years in Europe, but rather with the "end of ideology" and the sustained capitalist boom following World War II. In this context, tripartism in the field of economic policy making seemed, at least superficially, to tell another, altogether more successful, story. While tripartite practices were vested with less formal pomp and circumstance than they had been before, they came to occupy a not insignificant place, *in some European countries*, in relation to the state's new role in macroeconomic management and in partly fostering the basis for legitimating that role.

The reasons for this transformation, and for the fact that it only occurred in certain countries, have to do with a complex set of factors which can by no means be reproduced at will at any conjuncture or in any context. The most important of these factors was the postwar state's commitment to full employment. The ability to meet that commitment — indeed the condition which made the politics of full employment possible — was the greatest period of sustained economic growth in capitalism's history. The economic roots of this boom (discussed briefly below) lay outside the policy control of any single state, above all the small European states where tripartism became particularly salient. Within this context, however, the actual degree of commitment to full employment varied, and uneven economic conditions existed. Moreover we may see that it was in those countries where and when the state was unwilling or unable to compromise on near-full employment as a policy

goal that tripartite structures came to play an important role. For they were now given a concrete function that they had lacked before: that of securing wage restraint so as to offset the economic strength of unions in a capitalist economy with near-full employment.

The problem was recognized from the beginning of the postwar era, and it involved considerable concern on the part of both capital and the state about the effects that freedom from what Kalecki called "fear of the sack" would have on worker discipline.[8] The famous Beveridge Report, which helped to lay the programmatic foundations for the postwar state, addressed the issue directly in raising the "possibility that under conditions of full employment, industrial discipline and private enterprise may be found mutually incompatible." It went on to quote from a remarkable article in *The Times*:

> Unemployment is not a mere accidental blemish in a private-enterprise economy. On the contrary, it is part of the essential mechanism of the system, and has a definite function to fulfil.
>
> The first function of unemployment (which has always existed in open or disguised forms) is that it maintains the authority of master over man. The master has normally been in a position to say: "If you don't want the job, there are plenty of others who do." When the man can say: "If you don't want to employ me, there are plenty of others who will," the situation is radically altered. One effect of such a change might be to remove a number of abuses to which the workers have been compelled to submit in the past, and this is a development which many employers would welcome. But the absence of fear of unemployment might go farther and have a disruptive effect upon factory discipline. Some troubles of this nature are being encountered to-day, but in war-time the over-riding appeal of patriotism keeps them within bounds. In peace-time, with full employment, the worker would have no counterweight against feeling that he is employed merely to make profits for the firm, and that he is under no moral obligation to refrain from using his new-found freedom from fear to snatch every advantage that he can.[9]

But the problem was seen to go beyond the assertion of workers' rights at the level of the workplace. It also was a macroeconomic problem in terms of the Keynesian policy of maintaining a high level of consumer demand through state fiscal and monetary policy. For insofar as the general level of wage incomes was uncontrolled, this could not only cause wage-push inflation or squeeze profits via increased labour costs, it could also render demand management unpredictable by promoting demand-pull inflation and/or a demand for imports that would disturb the balance-of-payments goals in the context of the free international trade and exchange policies that increasingly characterized the new era in international capitalism. This meant that the state had to evolve a labour policy that went beyond selective, ad hoc intervention in industrial disputes and even beyond the legal regulation of collective bargain-

ing. It meant that the state had now to concern itself with guiding the general level of labour incomes in the economy, treating, as Keynes himself put it, the "ultimate independent variables as consisting of the wage unit as determined by the relation between employers and employed."[10] It was this development that led Beveridge to recommend not only such vague notions as a "change in status of the workpeople and a greater share by them in industrial management" but also, and with more effect, a "unified wage restraint policy" as a *quid pro quo* for full employment and the welfare state. And, indeed, in virtually every case where tripartite economic-policy structures became at all important, an incomes policy designed to abate wage pressure from the unions was at the forefront of state concern. The pattern was most clearly discerned, perhaps, by Bill Warren: "Full employment policy . . . was a product of the fear of the political repercussions of a repetition of the mass unemployment of the 1930's. Capitalist planning was, on the contrary, designed to deal with the economic, as much as the political, consequences of full employment policies."[11]

In addition to these considerations, a number of facilitating factors helped to determine both where the political commitment to Keynesian full-employment policies was strong, and where tripartism took hold as a central political practice. These factors had, above all, to do with the political strength, the organizational structure and the ideological composition of the labour movement. It has often been noted that tripartism is conditional upon highly centralized employers and trade-union federations, who can strike national economic "bargains" and make them stick with their members. While the centralization on one side seems to be associated historically with centralization on the other, it does appear that it is the degree of centralization of the union movement that is more important a factor. A highly centralized union federation offered the possibility of actually being able to insulate incomes policies from rank-and-file pressures. Faced with an interlocutor of this kind, governments were more prepared to bring trade-union leaders together with business-association representatives into tripartite economic policy discussions. It thus appears to be no accident that studies have repeatedly found that those three societies most commonly seen as epitomizing stable tripartite consensus arrangements in the modern era — Austria, Sweden and Norway — contain the most highly centralized union movements in the Western world in terms of the financial resources and constitutional powers of the national body as it relates to its affiliates and members.[12]

A further facilitating factor appears to be the place and strength of social democracy in a society. There was a very high correlation between the salience of tripartism in the postwar era and social democratic governance. This clearly had to do with the initial degree of commitment to full employment and the welfare state. But it also had to do with the credibility of the claim by social democratic parties that they were really

interested in democratic planning of the mixed economy rather than just wage restraint through the medium of tripartite incomes policies. It was in this context that trade-union leaders (and members) were prepared to turn their long-standing attachment to social democratic parties into the offer and practice of wage restraint for social democratic governments facing economic or electoral difficulties.

Both these facilitating factors point to a number of paradoxes relating to the historical evolution of tripartism. In the first place, whereas corporatism in the 19th century developed in the hope of preventing the separate organization of workers in their own trade unions and socialist parties, it was precisely in those countries where this industrial and political self-organization went furthest that tripartite corporatism within liberal democracies became highly developed. It is important to see that tripartism was not some imperfect capitalist plot, effected under conditions of high employment, to secure wage restraint from the unions. It was, rather, a *political response* by the state *under full-employment conditions* to long-standing demands made by *strong and centralized trade unions* for the right to be consulted and to bring their influence to bear in the making of economic policy. And tripartism was, at the same time, a central component of social democratic party strategy, which union leaders themselves played an important role in formulating. On the one hand, this strategy involved a political program for full employment and the welfare state amidst indicative tripartite planning of the mixed economy; on the other hand, it involved being able to claim special status in dealing with the contradictions of such a program within what remained a capitalist market economy, by virtue of a unique working relationship with the trade unions that would foster moderation and consensus. It is not misleading, therefore, to say that the political and industrial wings of the social democratic labour movement were in many ways the authors of modern tripartism. And while it is true to say that Christian union confederations and political parties were often similarly motivated, tripartism never got very far as an actual practice unless the social democratic labour movement was its companion in political or industrial coalition. Modern corporatism, having its roots in an ideology opposed to parliamentarism and socialism, has almost become an historical corollary of parliamentary socialism.

A second paradox touching the historical evolution of tripartism relates to the above one. Despite its central themes of consensus and compromise, despite its constant iteration that conflict can achieve little in the long run, tripartism's very existence is premised on the existence of strong working-class cultural and political identities, which themselves derive from a formative era of class conflict, of confrontational class formation. The labour movements with the lowest comparative strike rates in the postwar era were often those with the highest strike rates earlier.[13] (See Table 2-1.) The most centralized union movements

TABLE 2-1 Relative Strike Involvement in 18 Industrial, Capitalist Societies, 1900–1976

	Arithmetic Means			Geometric Means		
	1900–18	1919–38	1946–76	1900–13	1919–38	1946–76
Italy	270	394	2,313	248	60	1,869
Australia[a]	—	517	1,589	—	426	1,425
France	184	388	1,367	172	221	1,137
Finland	223	120	835	188	59	410
New Zealand	—	180	523	—	162	415
Japan	3	32	450	3	29	414
United Kingdom[a]	237	396	432	169	238	357
United States	259	277	354	238	193	327
Belgium	168	468	331	135	312	223
Canada	173	151	314	161	117	243
Ireland	—	161	293	—	118	238
Denmark	94	203	183	69	55	70
Austria	177	343	145	154	72	74
Germany	151	775	92	126	264	53
Norway	165	384	64	99	207	29
Netherlands	122	115	57	102	81	30
Sweden	397	295	36	186	194	11
Switzerland	79	42	8	63	29	2

Source: Walter Korpi and Michael Shalev, "Strikes, Power and Politics in the Western Nations," in *Political Power and Social Theory* 1, 1980, p. 313.

a. Alternative series which exclude mining strikes have been constructed for these countries. Period averages for these series indicate a much larger interwar-postwar increase, especially in Australia.

were those that were formed coterminously with, and under the influence of, socialist parties, and in which considerations of class solidarity played a large role in resisting organization along the lines of the immediate contours of the labour market (i.e., according to the manifold and various divisions of skill and occupation) as a craft and business unionism was to do. It was in the course of extensive and open industrial and political conflict, often ringing with the Marxist discourse of class struggle, that the class identities were forged that subsequently became attached to tripartism. In contrast, the decentralized, more strike-prone, predominantly apolitical, industrial relations systems of North America that emerged in the postwar era rested on the earlier suppression or failure of effective working-class politics and thus on the weakness of distinctive working-class organizations and sub-cultures. Of course, the transformation of these European class identities from a confrontational to a collaborative mode rested on the elaboration of social democratic reformism: the abandonment of notions and practices of class struggle, the promulgation of a "neutral state," and finally the adoption of Keynesianism and the welfare state as the programmatic *raison d'être* of social democracy after World War II.

We can now begin to understand the comparative contours of modern tripartism. In North America, with its relatively weak commitment to Keynesian full-employment policies (It was by no means only a symbolic act that the American postwar Full Employment Bill was emasculated by Congress to become the *Employment Act* of 1946.) and with its decentralized and weak labour movements, tripartite economic policy making played no significant role. In Italy and France, despite the visibility of corporatist ideology, and even the establishment of prewar-style social and economic planning councils, tripartism also played no significant role. This was, in part, because of the high rates of unemployment that prevailed until the 1960s, and, in part, because of the presence of politically strong Communist labour movements (which were both excluded by the state after 1947 and excluded themselves on the explicit grounds that tripartite incomes policies were corporatist). Even in West Germany, with its ideology of social partnership, it was not until the arrival of near-full employment in the 1960s, and the entry of the Social Democratic Party into government that tripartism in economic policy making developed. On the other hand, it was in countries like Sweden, Norway, Britain, the Netherlands and Austria, where a strong social democratic labour movement made the full-employment commitment the central issue on the political agenda, that the conditions making for tripartism were seen to be evolving.

It is important to emphasize immediately, however, that even in these societies, the development of tripartism was by no means a linear or entirely regular process. It was subject to repeated strains and even ruptures which, as we shall see, have emerged out of the contradictions generated by the tripartite practice itself. It is possible, indeed, to discern three distinct phases of tripartism since 1945, each characterized by an active search for consensus focussed on an incomes policy so as to facilitate full employment, price stability and balance-of-payments equilibrium, and each punctuated at its close by the severe instability or breakdown of tripartite arrangements. The first phase covers the period of postwar reconstruction when the parameters of the new state management of the economy were still ambiguous and the precariousness of postwar growth was of chief concern. Tripartism in the late 1940s was characterized by a transference from control over prices and physical goods towards control over wage levels as the central concern of the state. Extensive trade-union cooperation in wage restraint in the late 1940s combined, therefore, with the attenuation of wartime price controls and subsidies; under these conditions this phase of tripartism broke down at the beginning of the 1950s, not only through rank-and-file repudiation of the union leaderships' wage restraint, but also amidst a broader ideological disenchantment induced by the Cold War, a reaction by business against even indicative "democratic planning," and a general popular frustration with "controls" and their association with shortages.

The second phase of tripartism covers the period of "full employment

capitalism" proper (i.e., the decades of the 1950s and 1960s), when new institutions and practices were forged not against the immediate pressures of war-induced shortages, postwar radicalism and cold-war reaction, but in the context of a recognition of the longer-term tensions that conditions of sustained and rapid growth produced. This phase covers early starters such as Sweden and Austria, which refashioned their tripartite arrangements in the mid-1950s after only a temporary hiatus, as well as latecomers like Britain and Germany, which evolved new structures of collaboration only in the 1960s. This period may be said to have been characterized by indicative planning of a forecasting kind and by the modesty of labour's political demands on capital in terms of redistribution of control as a *quid pro quo* for incomes policy. This phase was closed dramatically by the unofficial wage and strike explosion of the late 1960s. As the most recent and comprehensive study of European incomes policies has put it, tripartism in this period:

> failed to provide significant rewards for cooperation. In particular, the distributional implications of most of the policies were not advantageous to labour, and efforts by national union officials to cooperate with the incomes policy objectives of their governments eroded the institutional authority of the officials over the rank-and-file memberships.[14]

The third phase of tripartism covers the period of the 1970s to the early 1980s. It is characterized, first of all, by a tendency on the part of the unions to up the ante for collaboration, mainly by taking up demands that resurfaced on the left in the 1960s, involving issues of control over investment and participation in management, in addition to demands for significant extensions in the "social wage." It is marked, as well, by a trend on the part of governments to use their annual budgetary tax policies as a negotiating tool in the matter of centralized wage agreements: that is, to try to restore the viability of incomes policies by trading cuts in personal income tax for wage restaints. But above all, this period is marked by the onset of the new economic crisis, undermining as it does the very foundation of "full employment capitalism" and the logic of tripartite politics that derived from it. The crisis produced not only the well-known phenomenon of stagflation, confounding the simplicity associated with marginal Phillips-curve trade-offs between unemployment and inflation (which now rose together), but also a sharp new "employer offensive" against the increased costs of tripartite collaboration, a reaction induced by a continuing fall in the pretax rates of profits and the fear of wage compensation for inflation, increased social expenditure by the state, and union demands for participation and control over investment. In this climate, voluntary consensus, temporarily re-established in the 1970s, has tended to break down yet again.

The following section attempts to trace these developments as they exhibited themselves specifically in four European countries: Britain,

Sweden, West Germany and Austria. Given the variety of tripartite experience, any attempt to be fully comprehensive would be superficial, but it is to be hoped that through the selection of four important and different cases and through a concentration on the processes of tripartite collaboration rather than particul~~aristic institut~~ional detail, the main patterns of the tripartite experience may be discerned.

Before turning to this endeavour, however, a few words of definition are necessary in order to forestall any confusion that might arise from the notorious multiplicity and vagueness of terminology associated with concepts like corporatism and tripartism. As the first sentence of this study indicated, tripartism is used here in the sense of the institutionalization of arrangements among business, labour and government leaders for their collaboration in the formation, legitimation and administration of economic policy. I have always taken this to be the essence of modern corporatism, and the terms "tripartism" and "corporatism" are therefore used in a complementary fashion in this study. Moreover, insofar as the association of business leaders with government leaders in the making of economic policy is hardly novel or surprising in capitalist economies, this study concentrates on those processes that bring labour leaders into such arrangements, thereby making them tripartite. Most important, as against the grain of much loose usage in the literature, I do not think that tripartism or corporatism can be said to characterize or describe an entire sociopolitical system or the political culture of a given country. There are no corporatist or tripartite societies as such; nor can we properly say, therefore, that country A is more or less corporatist than country B. What we can do is note that some aspects of representation and decision making are institutionalized in a tripartite manner for certain countries in certain periods, and inquire into the degree of salience these tripartite arrangements have and their degree of stability.

The four countries examined here are not chosen because they represent the "most" corporatist cases. Nor are they chosen to establish some purely formal polarity distinguishing them, so that it might be said that Sweden and Austria are tripartite while Germany and Britain are not. For while it is true that tripartite arrangements proved for a considerable period to have greater longevity and greater salience in economic policy making in Sweden and Austria than in Britain and Germany, it was not for lack of repeated attempts to form such arrangements in the latter countries, as we shall see. Clearly, an assessment of the relevance of tripartism to Canada should not focus solely on the most stable cases, while ignoring the problems faced by Britain and Germany in making their arrangements as salient or as durable. In any case, the point of the following case studies is not so much to compare between less and more successful tripartite "models" as to discern the historical experience of each country with tripartism. In this way alone can we really see the particular conditions that made tripartism salient or not in certain peri-

ods, and only in this way can we see whether — and the extent to which — each country's experience corresponds to the general pattern of postwar tripartite practice outlined on the previous pages. This inquiry will structure our exposition for each of the subsequent case studies.

Consensus in Our Time? Four Studies in Tripartite Practice

Britain: If at First You Don't Succeed . . .

It is ironic that British efforts at tripartism should be notorious for their instability, for as it came out of World War II, Britain had the most developed institutional arrangements for government, business and labour cooperation of any liberal democracy.[15] With the Labour Party's entry to the war-time Coalition Government in 1940, Britain's most powerful trade union leader, Ernest Bevin, became Minister of Labour; in this capacity he negotiated and oversaw a new industrial concordat between capital and labour. The Trades Union Congress (TUC) agreed to manpower planning and a ban on strikes in exchange for strict controls on industrial production, including direct price and profit controls. A new Joint Consultative Committee far surpassed in influence previous ineffectual tripartite bodies and was supplemented at the regional level by Joint Production Committees with real authority. The union leadership played a major role in suppressing rank-and-file discontent during the war, particularly in the mines, although the absence of the statutory regulation of wage bargaining allowed powerful shop-steward committees, to develop, especially in the engineering industry. These committees became the backbone of rank-and-file militancy in the postwar period.

The adoption of the Keynesian commitment to full employment by the Coalition Government in 1944, followed by the massive electoral victory of the Labour Party in 1945, represented a considerable political advance for the British working class, ensuring that every postwar government over the next three decades would have to treat the trade unions as what Churchill himself called a new "estate of the realm." But it should not be thought that postwar tripartite developments were merely an extension of wartime practice. On the contrary, price controls and the direct physical control of production were dismantled after the war, and in this context the Ministry of Labour quickly lost its central role to the Treasury, a department distant from and unsympathetic to the unions and close to the concerns of the traditionally dominant force in twentieth-century British capitalism, the financial interests of the City of London. Tripartite arrangements in economic policy were to retain considerable prominence, but the basis for them no longer lay in effect-

ing and legitimating public control over investment, prices and manpower. They now were directed toward coping with the inflationary effects that would be produced by a strong labour movement under conditions of continuing high employment in a capitalist economy whose health was once again to be determined primarily by competitive rates of profit and by the exchange rate of sterling. Economic planning in the postwar era became primarily a forecasting exercise of the private sector's intentions, providing a forum for inducing the TUC to cooperate in an incomes policy of wage restraint in exchange for minimal, temporary and largely symbolic price or dividend restraints.

The first major instance of this new kind of arrangement occurred under the Labour government's wages policy of 1948. Despite its discomfort at the government's refusal to couple voluntary wage restraint with renewed statutory price and profit controls, the TUC managed a policy of extensive wage moderation for a period of two years. In what was to emerge as a classic pattern of the instability of tripartite arrangements over the next 30 years, however, the wages policy broke down, in 1950, amidst unofficial strikes and the repudiation of the General Council on the issue at the 1950 Congress. Industrial conflict, even if it took only defensive and economistic forms, reasserted itself, especially under conditions of high employment and the presence of militant and well-organized shop stewards in key industries.

The search for a "social contract" temporarily receded from centre stage in the 1950s, in light of the above experience and of the anti-planning approach of the new Conservative government. It once again became the focal point of political attention in the early 1960s, when the Macmillan government established the tripartite National Economic Development Council (NEDC) and adopted a positive approach to indicative economic planning with the primary goal of inducing trade-union cooperation with its wage pause and National Incomes Commission (NIC). The TUC leadership grasped the opportunity of joining the NEDC, but kept its distance from the NIC. Despite its cordial relations with Tory labour ministers during the 1950s and the instinctive wage moderation of a good part of the union leadership, the TUC had had very little influence on a Conservative economic policy that promoted alternating bouts of deflation and reflation ("stop-go") of the British pound sterling. But if the TUC leadership was encouraged that its demands for tripartite planning were finally being met, its members remained suspicious that the Conservative conversion was but a Trojan horse for wage restraint, a new "employers' offensive" of the kind that the government had temporarily encouraged in the mid-1950s.

The main long-term effect of this development was that it allowed the Labour Party and the union leadership to take advantage of the fact that the rhetoric of tripartite planning had now become laden with positive connotations on all sides of the political debate and in the media. This

was a trend observable not only in Britain in the early to mid-1960s, but throughout the capitalist democracies, and it was very closely associated with the OECD's heavy promotion of incomes policy in this period. The Labour Party in this context, in conjunction with the union leadership, argued that a Labour government alone could obtain effective union cooperation in an "equitable" incomes policy, involving the "planned growth of wages" on the basis of a steady policy of Keynesian expansion and planned industrial modernization. After the election, a new Ministry of Economic Affairs sponsored elaborate tripartite consultations on the details of a prices and incomes policy and a National Plan forecasting 25 percent growth by 1970. These consultations were held under the aegis of a new Ministry of Economic Affairs. These were followed by no less elaborate ceremonies that heralded "the end of the class war," amidst the inauguration of a voluntary incomes policy which established guidelines for wage growth to be monitored by a new tripartite National Board for Prices and Incomes. Although the TUC had hoped for a firmer and more direct approach to price control, it managed to obtain overwhelming support for the new incomes policy at a special conference of trade-union executives held in April 1965. As the new Department of Economic Affairs promised to diminish the influence of the Treasury and the Bank of England on economic policy; as the TUC moved to establish its own vetting procedures over its affiliates' pay claims; and as Britain's major employer associations merged to form the Confederation of British Industry (these last two developments induced by government encouragement and even pressure), it appeared that the organizational conditions necessary for centralized tripartite bargaining and economic policy making were finally being re-established.

There was to be no smooth passage. In the face of early and severe pressure on sterling, the old Treasury and Bank of England dominance quickly reasserted itself in the form of an absolute refusal by the new Wilson government to consider devaluation. This trend was confirmed even after the massive mandate that the government retained for its growth policies in the 1966 election, shortly after which the National Plan was abandoned and a massive deflation and a statutory wage-and-price freeze were introduced. This sharp reversal of policy involved the undermining of the entire basis of the earlier tripartite discussions and the operative premises of the new tripartite institutions.

The resort to statutory controls (which took place after a year of pressure from the U.S. Treasury) came about long before the results of the voluntary policy could in any sense be tested, and the move was blatantly designed to bolster international and domestic financial confidence in the sobriety of the government and its commitment to the stability of the pound. It also involved violating the trade-union principle of voluntarism. British trade unions have traditionally been more strongly opposed than others to the legal regulation of industrial rela-

tions because of the implicit (and often explicit) dangers such regulation poses to freedom of association and the right to strike. But the principle of voluntarism in incomes policies has been far more widely shared among labour movements, not least by those most extolled for their social partnership approach, such as the Swedish, Austrian and West German unions. The strength of the blow to the promise of tripartism all this entailed will, therefore, be appreciated.

It is, moreover, entirely contrary to much myth making on the particular intransigence of British unions to note the fact that these unions went much further to legitimate and manage even this new draconian wage restraint than any other European labour movement was likely to have done. The TUC reluctantly endorsed the statutory freeze of 1966 and even acquiesced in the extension of statutory controls in 1967. At the same time, its attempts to negotiate compensation through fiscal policy were rejected by the government as constitutionally improper, although trade-offs between wage restraint and tax points became common practice in the 1970s and were being applied in Austria at this very time in the 1960s. Eventually, of course, the cycle first established in 1948–50 was repeated, when trade union cooperation in incomes policy was repudiated through unofficial strikes and repeated votes at union conferences. Also repudiated were the Labour government's legislative proposals (entitled *In Place of Strife*) to stifle unofficial strikes as an avenue of rank-and-file autonomy and dissent.

The cycle was still to repeat itself once more in the 1970s. Tripartite collaboration on economic policy making was rendered impossible during the Conservative Heath government (even when it was held to be desirable during the government's latter two years in office) by a degree of industrial class conflict unmatched for 50 years and the severe political confrontations over the *Industrial Relations Act* of 1972 and the statutory wage controls of 1973. During this period, however, the TUC and Labour Party leadership laid the foundations for the famous "Social Contract" of the 1974–78 Labour governments. As was to come about elsewhere after the wage and strike explosions of the late 1960s, the re-establishment of tripartism was made conditional on a broader testing of the limits of reform within capitalism by the unions as the price for their collaboration in wage restraint. As the Labour Party Election Manifesto of February 1974 put it: "Only deeds can persuade . . . that an incomes policy is not some kind of trick to force [the worker] to bear the brunt of the national burden." The deeds in question, as enunciated by a Labour Party–TUC Liaison Committee were: repeal of the *Industrial Relations Act* and statutory wage controls; "real moves" toward industrial democracy; extensive redistribution of wealth and income; the maintenance of statutory price controls; and a new industrial strategy with a National Enterprise Board and tripartite Planning Agreements with major corporations to extend public ownership and control over private investment.

And what happened? Within a year of the February 1974 election, incomes policy became the centrepiece of the Social Contract, and the unions responded with an exercise in voluntary wage restraint unparalleled in modern British history. Increases in gross earnings for the average worker fell from 25.5 percent in 1974–75 to 12.4 percent in 1975–76, to 8.8 percent in 1976–77. Because the rate of inflation fell more slowly (from 25 percent to 14 percent over the three years), real wages fell considerably. Even taking into account the compensatory tax concessions offered by the government, real wages fell by 5.5 percent, 1.6 percent and almost 1 percent in the three respective years. The real weekly net income of the average male worker, married with two children, if calculated in terms of October 1978 prices, had stood at £68.90 in September 1970, risen to £74.50 in September 1972, and maintained that level until September 1974; it fell by September 1977 to £68.10, that is, by over £6 per week. In 1977–78, with a less restrictive pay norm, a rate of inflation of 8 percent, additional tax concessions, and the first instances of breakdown of union cooperation, real net earnings recovered substantially (increasing by 9 percent). But this recovery still left the average worker with a real weekly take-home pay in September 1978 that was £3.50 less than in 1974 and almost £1 a week less in terms of real net weekly income (taking account of increased transfer payments of 1977–78).

It would of course be absurd to attribute these losses to the Labour government's wage-restraint policies alone, in abstraction from the economic crisis. But the sacrifice entailed in wage restraint would have been one thing had it been inspired on the basis of the promise of the 1974 Manifesto that "the crisis we inherit when we come to power will be the occasion for fundamental change and not the excuse for postponing it." Instead, the crisis became the basis for maintaining the existing balance of wealth and power in British society. Wage restraint was secured and maintained, while the statutory price controls and food subsidies introduced in 1974 were weakened and phased out; in the context of massively deflationary budgets and an increase of almost one million in the number of unemployed, once school leavers were included, public expenditure programs were cut and subjected to cash limits so that instead of the promised 13 percent growth, there was no growth at all in real terms from 1974 to 1978. As for the "industrial strategy," the Industry Bill was shorn of its compulsory dimensions, and the single Planning Agreement entered into with a private company occurred in the context of the government sanctifying in this way the bail-out of Chrysler. The NEB was largely absorbed into the role of traditional state firefighting on closures and, in any case, operated purely on the basis of commercial rather than social criteria. In these circumstances, the locus of the industrial strategy shifted back to the NEDC and the tripartite sectoral working parties established under its auspices in 1975. It was all summed

up, in 1977, by Jack Jones, the chief union architect of the Social Contract: "Somehow, somewhere, the Government's objectives seem to have been hijacked off course. . . . an industrial strategy which relies only on deliberation of sectoral working parties, on polite talks with industrialists and trade associations . . . is not a strategy at all, but an excuse for one."

That trade union wage restraint was maintained in the face of all this owed much to the government's rapid repeal of the *Industrial Relations Act* and the passage of union-sponsored legislation that eased union recognition, promoted equal pay for women, and provided protection against unfair dismissal. The fact that the guidelines of wage restraint were cast initially in terms of a cash limit rather than a percentage norm so as to narrow differentials also struck a responsive chord in the labour movement, as did the government's resistance at this time to Treasury demands for statutory controls. The hope that the government would move quickly (it did not) on the reports of official inquiries that it had established on industrial democracy and income and wealth distribution also fuelled a cooperative attitude among union leaders. But wage restraint could not be sustained without the broader industrial, expansionary and redistributive plans originally promised, and these plans were ruled out by the government accommodation to the contrary demands of both British capital and the International Monetary Fund (IMF). When the social contract finally collapsed in the "winter of discontent" of 1978–79, with low-paid public sector workers at the forefront, the TUC General Council, and the government were still issuing joint statements appealing to the nostrums of tripartite social consensus among labour, business and government élites. It was a discredited appeal, one particularly vulnerable to attack by the "market populism" of the Thatcher-led Conservatives.

Sweden: "We Has a Meeting"

If Britain has been widely regarded as the locus of tripartism's failure, Sweden has the reputation of being a prime example of its success. Andrew Shonfield's *Modern Capitalism*, the major comparative survey in the 1960s of economic policy in the West, told the story of a British trade unionist who visited Stockholm and asked how labour and capital managed always to reconcile their differences. "We has a meeting" was the answer.[16] All too often, what Shonfield himself called this "banal and opaque" explanation was readily accepted by foreign observers at face value. In fact, there was always much more to the Swedish "consensus" than polite discussions, and beneath the surface there were developing those very tensions that led to the breakdown of that consensus, first in the late 1960s, and even more definitively today.

Toward the close of the first phase of tripartism in the reconstruction

era, Swedish tripartism appeared to be no more stable than the British version. Trade union cooperation in a two-year wage freeze broke down in a wage and strike explosion in 1950 and 1951, while at the same time the famous tripartite Labour Market Board, which had been established in 1940 to administer employment policy, was still by 1950 a minor agency and one under pressure of fiscal cutbacks. Over the course of the ensuing five years, however, largely because of the initiative of the Swedish central trade-union federation (LO), a new basis for the Swedish "social consensus" was to be fashioned. The goal of the LO's celebrated Rehn-Meidner plan of 1951 was to avoid a statutory incomes policy that the Swedish union leadership believed would make trade unions and their freedom of association meaningless. Their alternative was to facilitate voluntary wage restraint by drawing on the labour movement's long-standing belief in a solidarity policy of coordination of wage demands to establish as much collective class identity and condition as possible, but to use that policy so that it became primarily a means of macroeconomic adjustment against inflation under the conditions of full employment capitalism. As Meidner put it, the new departure was "forced upon the unions by outside forces and circumstances" and "admittedly on different grounds from those originally advocated. . . . Full Employment and the preservation of economic stability were now regarded as a stronger argument for coordination than a wage solidarity policy."[17]

In other words, as is necessarily the case with incomes policies, the LO's new proposals involved the incorporation of capitalist growth criteria in the unions' wage-bargaining calculations. But whereas in most other countries this took place in a superficial way only (i.e., in the sense of recognizing that the general level of profits should not be squeezed too much), the LO understood the role of profits within capitalism in a more profound sense. Perhaps, in part, because of the Marxist tradition in the labour movement, the Swedes understood capitalism's dynamism not in terms of a static model of free competition, but in terms of an historical appreciation of the role of the concentration and centralization of industry. They decided to encourage this process by adopting an overall wage policy of restraint as consistent with the macroeconomic consideration of limiting inflationary trends, while combining it with the promotion through centralized wage agreements between the LO and the Swedish Employers Confederation (SAF), of higher wage increases in the low profit, low productivity (and hence low-paying) firms. This would either drive these firms out of business or force greater efficiency by changing the capital/labour ratio, but unemployment would be avoided by an active labour-market policy, which would provide retraining for job mobility at full rates of pay. In this way the Swedes also offered an answer to the confusion or hypocrisy that usually attends arguments for incomes policy. Claims that the low-paid may benefit (because there will be "more room" for increases for them if the higher-paid hold back on

their demands) are meaningless unless a device for transferring either profits or workers from one firm or industry to another is established and large wage increases for the low-paid are actually promoted (not just "allowed") even in the low-profit firms and industries.

It took the better part of a decade before this form of incomes policy was fully put into place. Until the mid-1950s, the Swedish government opposed it in favour of a more general and conventional policy of wage restraint. It was not until the turn of the decade that the labour-market policy expenditure began to expand rapidly in absolute terms and in terms of the "adaptation" aspects of the Labour Market Boards' budget. The centralized wage agreements (although not the closing of differentials) were, in fact, promoted by the SAF from 1952, and on labour's side this promotion was facilitated by the work of the LO's own Wage Policy Council in convincing the affiliated unions of the viability and value of coordinated bargaining. Nevertheless, it was not until 1956 that the first centralized bargaining round took place. Although the system sometimes appeared to observers as more bipartite than tripartite, the distinction was purely formal. The macroeconomic policy goals of the government, especially a tight fiscal policy, formed a crucial backdrop to the centralized wage agreements. As for the absolutely vital labour mobility aspect of the Swedish incomes policy, the government funded the Labour Market Board's retraining and adjustment expenditures, while the Board, despite a semi-public status and tripartite composition characteristic of much of Swedish public administration, acted as the analogue of a normal government department elsewhere.

It is true, nonetheless, that the *sine qua non* of the whole edifice was the capacity of both the SAF and the LO to commit their affiliates to central agreements. The roots of this commitment go back to the first decade of the century, when Swedish industrialists pooled their resources to resist organized labour by means of general lockouts, and the trade unions gradually responded by their own centralizing of strike funds and powers. The whole system came to rest on what one observer perceptively called a "balance of terror" surrounding the prospect of general lockouts or strikes. It was formalized, in part, through labour legislation in 1928 that outlawed unofficial strikes and, to a much greater extent, after pressure was exerted on the unions by the new Social Democratic-led government, by the LO's signing with the SAF the famous Saltsjöbaden procedure agreement of 1938, whereby the employers granted union recognition in exchange for the LO's acceptance of exclusive managerial prerogatives over the workplace.

Incomes policy based on centralized wage agreements seemed to operate smoothly once it was established in 1956, particularly as it came to be supplemented by active government sponsorship, including the establishment, in 1962, of a tripartite Economic Planning Council. Beneath the surface, the system was rather more subject to strain and

contradiction than was recognized, or at least admitted, by the central actors. Even if the point was not revealed in official strike statistics, unofficial strikes were, in fact, not uncommon in Swedish industry, revealing that despite "the myth of labour peace . . . in the Swedish case more and more open conflict appears as one descends from the central level of organizational interaction to the shop-floor."[18] This shop-floor conflict, similar to that in other societies, was the source of considerable wage drift, which was especially strong in areas of labour shortage, as the SAF, never keen on reducing differentials in any case, looked the other way while local agreements above the level of the central ones became commonplace. Further centrifugal tendencies could be discerned in that white-collar unions increasingly found themselves at odds with the logic of the system. This was partly because the system was based on the profit dynamics of the private manufacturing sector exposed to international competition; and partly because these fast growing unions, especially among professionals, did not share to the same extent as the manual unions the traditions that made for class identity and solidarity, and that had now been attached to the preservation of full-employment capitalism under Social Democratic governance.

Yet there were other problems as well. Social scientists began to raise questions, on the basis of labour-force surveys conducted in the 1960s, as to whether the labour market policy was really working, or whether marginal workers were being squeezed out of the labour force through closures and take-overs.[19] An LO study completed in the mid-1960s revealed that there had been no marked change in income distribution since 1948 and, indeed, that the proportion of persons with 40 percent or less of mean income had increased considerably while the proportion with the highest incomes had increased its share. Perhaps most important, this and other studies found increasing concentration of private wealth, and hence private economic power, in a country with a very low level of public ownership of industry. In manufacturing, the degree of concentration rose more between 1960–64 alone than it had over the previous two decades as a whole, with the 100 largest industrial companies accounting, in 1963, for 43 percent of all employees and 46 percent of the total product.[20] The role of the wages policy in promoting this development did not escape even the architect of the policy:

> The paradox arises that the structure of ownership takes on an increasingly disadvantageous character for employees, the more successful the trade unions are in their efforts to achieve parity of wages. Moderation of demands by groups with above average pay in profitable firms may be regarded as a success in terms of wages policy. But in terms of ownership policy it is anything but a success, for it leads to increased ownership of wealth on the part of the capital owners, who profit from trade union solidarity.

> . . . there is an inherent tendency in the capitalist system towards capital accumulation through self-financing, but it is intensified by a wages policy which allows the firms which are expanding most to keep a share of profits as capital for accumulation without a struggle, where this share could have been transformed into wages income through a militant sector-by-sector wages struggle.[21]

The growing structural inequality of power that this implied was underpinned by the LO's continuing acceptance in the 1960s of the inviolability of managerial prerogatives as part of the price to be paid for social consensus. And it was compounded at the central level by the LO's relative weakness in terms of vital information regarding capital's investment or even employment plans. And most pragmatically, everything still hinged on what capital actually *did* with its profits (i.e., whether it reinvested them sufficiently in Swedish industry), which left not only the workers, but also the state dependent on private capital's private decision-making prerogative. Schemes to lessen this dependence by using state pensions funds to guide or "top up" private investment did not ever really yield a solution to the problem. Thus the increasing concentration of capital encouraged by the solidarity wage policy and labour-market strategy produced contradictions not only in terms of political ethics, but also in terms of effective macroeconomic management. Again, Meidner summed it up: "Success in evening out developments in wage structure has to be paid for through growing inequality in the functional distribution of income and therefore also in the concentration of ownership and power. Such developments contradict the aims of the welfare state and cannot be passively accepted by it."[22] Yet they *were* passively accepted both by the Social Democratic government and by the LO in the 1960s, and Meidner himself has admitted that awareness of the above problems:

> did not lead to political insight into basic inherent weakness in the concept of socio-political harmony. Even the protracted and widespread unofficial strike in the state iron-ore mines at the end of 1969 was not perceived as a harbinger signalling a new phase in the development of Swedish social partnership, but rather as the result of a series of unfortunate circumstances, which could be sorted out without any basic change in the positions of the social partners.[23]

This is not the place to document the unofficial rank-and-file strikes that shook the Swedish system in 1969–70, nor the failure of the Labour Court's attempt to stop the dockers' strike of May 1970, through the imposition of maximum fines on 78 workers, nor, in 1971, the temporary suspension, backed by the LO, of public employees' right to strike. Suffice to say that it is generally agreed that the strikes were a response to the immediate circumstances of a decline in real disposable income, as well as labour's share in the national income, but that this response

was but a trigger for more longstanding discontent associated not only with the squeezing of differentials, but also with the LO's remote bureaucracy, particularly in a situation when local working conditions were worsening with increasing industrial concentration and rationalization.[24]

Under the impact of these strikes, the LO actually moved quite quickly and clearly toward establishing the basis for the third phase of postwar tripartism, in an attempt to turn the unrest into positive challenges to the inequalities that lay at their root. The LO turned first to the question of the exclusive managerial prerogatives. "This meant departing from the principle of the sole right of employers to make decisions at the place of work. It meant an actual formal declaration of the nullity of the Partnership Agreement of 1938. It meant the renunciation of the ideas of harmony which had dominated the Swedish labour market for more than three decades."[25] Although at this stage there was no challenge to private ownership and control over investment, the SAF refused to go beyond issuing a call for "good collaboration." Accordingly, the Social Democratic government turned to legislation, and through a series of Acts legislated in 1973–74, it introduced major reforms in employee protection, job security and the role of shop stewards, as well as facilitating the appointment of two union representatives on company boards.[26]

In the context of a severe deflation (known as "the idiot stop") by a government concerned, after the strikes, with labour costs exceeding productivity growth and a decline in profit margins, the discussions between the LO and SAF in the early 1970s were difficult, and striking central agreements was a protracted process. In 1973–74, against the backdrop of the new reforms as well as the oil price shock, a very restrained settlement was quickly reached, with the LO making concessions on the wage-solidarity side by agreeing to defer compensation for wage drift for a year. This agreement was followed by a large rise in profits. A fresh spate of unofficial strikes led to the quick conclusion of a new two-year central agreement in 1975, aided by a government deal on tax cuts and increased social benefits. The passage, in 1976, of the most far-reaching of the work-reform legislation (the *Act on the Joint Regulation of Working Life*) was accompanied in the same year by the famous Meidner Plan proposal. This proposal, which emerged from a five-year study by the LO, was designed to resolve the concentration-of-ownership problem by transferring 20 percent of an enterprise's pre-tax profits into shareholdings funds under the administration of directly elected worker representatives. In a 20- to 30-year period, enough shares would be accumulated to turn wage restraint into majority employee ownership. It seemed to many that Sweden was taking the lead toward a new "middle way," democratic socialist society without having to disrupt, in the process, economic growth and class harmony.

But the circle only appeared to be squared. The contradictions of

Swedish tripartism in the 1960s have been discussed above from the point of view of labour's goals. From capital's point of view, the contradictions of tripartism came more and more to the fore in the 1970s. Falling profit shares and rates of return since the 1960s had been compensated for by tax changes which saw the burden of taxation shift dramatically to direct household taxes. (The effective tax rate on profits in Swedish industry fell from almost 45 percent in the mid-1950s to about 10 percent by 1975.)[27] Not only had this shift in taxation been a source of pressure for higher wage demands, but the progressivity of the direct income-tax system (designed to promote retained profits as much as income equality) also had the effect of further enraging the high-salaried professionals and business executives. Since tax compensation for falling profits was now pretty well exhausted, and since new challenges to managerial prerogatives and even to ownership were being demanded as the price for wage restraint, it was now Swedish capital that proved itself little enamoured with the social consensus approach.

The 1976 electoral defeat of the Social Democrats after 40 years in office was but the first sign of the dénouement. The new centre-right coalition government did not renege on its predecessors' work, nor could it efface the underlying trend to conflict as Swedish capital sought to restore its structural ascendancy. This effort was not seen only in capital's vociferous opposition to the Wage Earners Funds proposals and not only in its reluctance to bargain joint regulation of the workplace agreements as provided for in the 1976 legislation. (It was to take seven years before the first such agreement was signed at Volvo.)[28] It was also seen in a new employer offensive in wage bargaining to improve profit margins and lower labour costs relative to productivity. Real earnings in manufacturing, in fact, declined by 4 percent in 1979, fell by 3 percent in 1978, and barely held their own in 1979. When on Labour Day (May 1) 1980, 110,000 workers in LO unions went on strike, and 600,000 more were locked out by 20,000 SAF-affiliated firms, the gap between the SAF offer (2.3 percent) and the LO demand (11.3 percent) was enormous. The situation was complicated by internal conflict, even within the LO, between public and private sector workers. But there was an even deeper labour-capital conflict at work, one that could not be bridged any longer by the old formula. In January 1980, the LO and the Social Democratic Party had put forward an economic stabilization program consisting of a price and rent freeze, together with a moderate version of the Meidner Plan, in exchange for voluntary wage restraint, but this proposal was unacceptable to the SAF and the government as a total package. As Flanagan et al. have observed:

> It would be a misleading oversimplification to depict the breakdown of central negotiations in 1980 as simply the failure of the current representatives of the LO and SAF to resolve their differences — as the collapse of

bipartisan negotiations under straightened economic conditions. . . . It symbolized a difference in objectives.[29]

A truce achieved after ten days of massive confrontation, in May 1980, did not resolve the source of the conflict. In 1981, 100,000 workers were officially recorded as on strike, three times as many as in any other year since the beginning of the 1970s.[30] More significantly, the employers showed themselves to be determined to break the wage-solidarity aspect of wage restraint (above all by ending the compensation for wage drift previously secured through central agreements) even if this meant totally abandoning the centralized incomes-policy system. And this has, in fact, been the outcome. Protracted negotiations in 1982–83 were only concluded after the crucial metal sector settled separately, without regard for the "wage solidarity" principle. And the round of bargaining for 1983–84 has finally resulted in the total abandonment of the central agreement in favour of sector-by-sector bargaining. This was a victory for the employers, achieved even in the face of the LO's granting major concessions on compensation for wage drift.[31]

This breakdown has occurred in spite of the return of the Social Democrats to office. It has occurred in spite of a series of devaluations, which spurred an export-led recovery over the past year. And it has occurred in spite of the introduction of a version of the wage-earners funds that pose no challenge whatever to capital in terms of economic democracy and the socialization of industry. (The five regional funds being established are primarily compulsory-savings schemes which act as pools of risk capital on the share market. The boards controlling the funds will not be directly elected by employees, but will be appointed by government, and the scheme is explicitly designed to ensure that majority control over individual enterprises is not secured.) The government still hopes that the funds will "secure acceptance for a high level of profits in enterprise," "reduce distributive conflict," "encourage restraint in collective bargaining" and in general "resolve certain conflicts now existing between capital and labour."[32] Yet the rank-and-file workers have shown little enthusiasm for the idea of the funds, and major firms like Volvo, as well as the SAF, still oppose them. "It won't solve anything" was the SAF's response, amidst charges, amazingly enough, that the scheme was still "a technique for socialization — buying out the owners and putting the state and trade unions in control."[33]

As we shall see in the economic assessment of the following chapter, Swedish tripartism was not able to stave off the economic crisis. To have kept the official unemployment rate to 4 percent is an achievement, to be sure (although youth unemployment reached over 10 percent in 1983).[34] But this achievement occurred not because of the stable operation of the old consensus, but in the face of its breakdown. The labour movement's

strength has been and is its ability to influence the Swedish political culture to the extent that it would be electorally disastrous for any government to renege on such a protective role for the state as the labour-market policy provides against mass unemployment. But this has more to do with the historical mobilization of working-class identity and solidarity than with meetings between LO and SAF leaders.

The underlying trends in the economy, however, have been such that in order to keep unemployment down, the proportion of labour-market policy expenditures on short-term relief work (six months) now amounts to almost 30 percent of the total; unemployment insurance takes up a further 25 percent.[35] Concern with the size of the deficit and the promotion of business profits were the main themes of the 1984–85 Swedish budget, which was supplemented, in April 1984, by a price and rent freeze as the basis for securing voluntary wage restraint in the sectoral negotiations. Given the history of the LO, it is by no means unlikely that such restraint will be forthcoming, if only in return for statutory controls over prices and rents. But one thing is clear in Sweden as it is in Britain: capital's own interest in tripartite consensus and social partnership is a highly conditional one. The attempt by workers to overcome their subordination by fundamental challenges to managerial prerogatives or private ownership as a *quid pro quo* for wage restraint finds capital withdrawing from the process.

West Germany: "One Man's Idea of Class Warfare was Another's Idea of Social Partnership"

Despite the ubiquitous rhetoric of social partnership, tripartism in economic policy making has actually been rather thin on the ground in West Germany.[36] Although there was considerable discussion during the late 1940s of reviving the Weimar Republic's "failed corporatist" institutions, this notion passed away as the contours of the new Federal Republic's postwar politics became settled under American hegemony and the social market-economy philosophy of the Christian Democratic governments. Despite the German trade-union confederation's (DGB) consistent strategy of social partnership through codetermination not only at the plant and company level, but at the national level through tripartite economic planning bodies, the DGB was effectively excluded from economic policy making.

To be sure, the institutionalization of the union movement was achieved by 1949 in the narrow (North American) sense of the establishment of a system of legal regulation of industrial relations. But even this was a highly paternalistic and quite restrictive code, involving not only the outlawing of some of labour's most effective weapons such as the sympathy strike (while coincidentally legalizing lockouts), but also imposing the famous "peace obligation" in conjunction with the specifi-

cation that the right to strike must be exercised in a manner consistent with the "moral social order of society as it developed historically." To say, as some have said, that the courts are thereby granted wide discretion, where judges are not noted for their pro-labour sympathies, is understatement indeed.[37]

It was perhaps the Codetermination and Works Council laws of the early 1950s that fostered the myth of German social partnership abroad. Yet on close inspection, the reality was otherwise. The Works Council legislation was seen in Germany itself as an actual defeat for the unions, in that they were excluded from participation in the councils and thus considerably weakened on the shop floor. (The relatively low rate of unionization in Germany is, moreover, sometimes attributed to the recruitment difficulties that this exclusion posed.) As for codetermination, the parity of union and shareholder representatives on supervisory boards was limited to the coal-mining, iron and steel industries alone, in the face of massive political resistance and mobilization of financial resources by German capital. That it was even won in coal, iron and steel is only explicable, on the one hand, in terms of a threatened political strike by the miners and metalworkers and, on the other hand, in terms of the untenable political situation of the owners of these industries who, because of their direct association with the Nazis, "had in effect been dispossessed and were discredited, and a system of parity representation on the board seemed to them preferable to outright nationalization, probably without compensation."[38] In any case, whereas the DGB and SDP had originally put forward codetermination as a *socialist* alternative to nationalization, it was in fact instituted as a *capitalist* alternative to the same, in the sense that these industries were run on impeccably commercial lines. Moreover the supervisory boards, even in these industries, emerged as more effective channels for the exercise of independent influence by the banks than by the unions on company policy.[39]

As for the low wage increases and low strike rates that characterized the years of rapid German recovery in the 1950s and helped to lay the basis for the so-called "German miracle," they were hardly the product of a tripartite consensus on economic policy. Throughout this period, government policy toward union wage demands consisted mostly of moral suasion and public denunciation. The prevailing militant anti-communism of these years greatly facilitated government attacks on the unions as a state within a state, a group which was allegedly fostering its class interests and endangering the free market economy and democracy. The highly organized and disciplined German central employers' association (BDA) was, in any case, openly disdainful of union economic pressure in the situation of surplus labour that prevailed throughout the 1950s. Above all, relatively high unemployment levels were facilitated by a government economic policy that was effectively monetarist. As Shonfield averred: "The German authorities behaved as if the revolution in

economic thinking which derived from the work of Keynes in the 1930s had never occurred at all."[40]

It was only when the sources of surplus labour began to dry up (East German migration was closed off, and the rural pool was exhausted; the importation of the guest-workers was only just beginning) that Keynesian policies and their tripartite institutional counterparts slowly came onto the political agenda.[41] Under the new conditions, with unemployment actually falling to less than 1 percent in the early 1960s, the unions became confident enough to reject a proposal by the Federal Bank that wage increases be limited to productivity growth alone and to obtain acknowledgement that price increases should be compensated for in nominal wage increases as well. But even then, the employers' main response was one of organized counter-assault rather than the sweet cooperation implied by the rhetoric of social partnership. In support of their argument that Germany's record of labour peace was primarily due to employer resistance and bargaining power, Flanagan et al. have portrayed the scenario in Germany of the onset of full employment in the early 1960s particularly well (and with poignant implications for a clear understanding of today's events):

> Then, in 1961, when the mark was revalued, the BDA issued more detailed guidelines for the establishment of strike funds and supportive behavior by nonstruck firms, and during the next two years the employers moved over to the counteroffensive. In 1962, Gesamtmetall, the employers' federation in metals, replied to contract termination notice by IG Metall in three regions by posting lockout notices in two others. This dispute was mediated by the prime minister of Baden-Württemberg, but in 1963, actual strikes in that state were followed by actual lockouts. The latter had not been resorted to since 1928, and Otto Brenner, the militant president of IG Metall, charged that "with the lockout class warfare waged from above is again in full swing." But one man's idea of class warfare was another's idea of social partnership. "There were no political grounds for the decision," replied the federation of employers, and its purpose was "not to teach the metal union a lesson." The purpose was simply to drain the unions' strike funds by widening the area of conflict. The effect was to arouse fear of a nationwide shutdown, which elicited the mediation efforts of Ludwig Erhard, later chancellor of the Federal Republic; but this time the mediated settlement, although it split the differences between the announced positions of the parties, was not greatly in excess of estimated growth in productivity.[42]

Full employment did elicit certain changes, however, in ideological climate, as well as economic policy. In 1959, with its famous Bad Godesberg program, the SDP had already gone through the (by then) largely symbolic exercise of explicitly renouncing its long-dormant Marxist heritage and self-identification as a working-class party. The DGB followed suit in 1963, with its Dusseldorf Program dropping the references to fundamental economic and social change that had been

enunciated in the Munich Program of 1949 and coming out explicitly in full support of the established economic order.

> Full employment was to be achieved through scientifically based, coordinated and planned economic and conjunctural policies, which were at the same time to facilitate a more just distribution of income and wealth. The trade unions were prepared to accept the guidelines in a national budget, worked out jointly with them, as "orientation data for their own full decisions." With this "reformist-Keynesian conception" the trade unions offered the state and entrepreneurs their cooperation.[43]

For its part, the government finally began to show some interest in Keynesian economics, although creation of the Council of Economic Experts in 1963 indicated that it was the American example, rather than the European tripartite model canvassed by the DGB, that was influential. The Council's own reports, however, repeatedly called for the establishment of an incomes policy and strongly encouraged cooperative concerted action at the national level of trade unions and employers' associations in the determination of appropriate wage levels according to the requirements of macroeconomic policies for growth. After the 1966–67 recession, and with entry of the Social Democrats into the Grand Coalition with the Christian Democrats, tripartism finally became official government policy.

Concerted Action as an institutional arrangement invited the convening of tripartite economic conferences by the Ministry of Economic Affairs. Initial meetings involved discussions over the framework of the new policy (as enunciated in the "Basic Law," the *Stability and Growth Act* of June 1967), while subsequent ones were concerned with securing agreement to a communiqué in which the DGB and BDA endorsed the policy objectives of the government's annual economic report and committed themselves to wage-bargaining behaviour consistent with the macroeconomic orientation data prepared by the government. This procedure fell short of the DGB's 1963 proposals:

> The jointly worked out national budget on the DGB programme had thus become an annual economic report of the federal government; the objectives to be decided *jointly with* the trade unions had become orientation data *of the government*. . . . The trade unions, without whose cooperation the 'new economic policy' must have been unsuccessful, saw nevertheless in the 'CA' a new possibility to bring in and implement their political objectives. . . . Only later did they realise that . . . [Concerted Action] aimed at the creation of a consensus for *state policy* and not an improvement of trade union possibilities for exerting influence.[44]

Trade-union attempts to change this situation, by such means as demanding that Concerted Action secure independence from the Ministry of Economic Affairs through the establishment of an autonomous bureaucracy, were only perfunctorily met in 1969, and even then the staff appointed were low-ranking officials. Meanwhile, union attempts to

broaden the discussions beyond the question of wages, to other important issues of economic and social policy were strongly resisted by the employers' association, as well as by the political parties, which both objected to the notion that Concerted Action might thereby be transformed into "a powerful economic parliament." As a result broader issues of policy were sloughed off to working groups. Trade-union leaders were to admit later that the central discussions had concentrated on short-term concern with wage increases, with orientation data on prices and profits never discussed in concrete terms. As a result the union leaders "found themselves continually on the defensive, bound largely by the framework set by the government and with no influence on the formulation of the subjects under discussion."[45] Complaints that the government's measures to overcome the recession were aimed at increasing profits were met with Economic Minister Schiller's famous promise of social symmetry: "If employers made increased profits in the short term, this should subsequently be balanced out by an increase in wages and salaries." Within the context of this explicitly capitalist rationality, it is not surprising that a careful and full assessment of this phase of German tripartism should have concluded: "Concerted Action provided the government with an institutional framework in which it could exert strong moral pressure on trade union leaders to moderate pay claims *under the guise* of offering regular and substantial participation in the formulation of national economic policy objectives."

Although the early meetings were reportedly punctuated by verbal clashes in the language of "street battle slogans," the union leaders were nevertheless inspired by the hope that, as a leading member of the DGB's research institute put it: "Exhortations, appeals and noisy haggling are to be replaced by the cold rationality of mathematic models."[46] It was precisely this naïve readiness to accept the presumed authority of the "facts" that proved to be the rather sudden undoing of the DGB leadership in relation to Concerted Action. In a remarkable demonstration of restraint, and with no more than the *promise* of social symmetry, the unions signed extremely moderate long-term agreements during the first two years of Concerted Action. This step was undertaken on the basis of government orientation data that conservatively estimated economic growth of 4 and 4.5 percent in 1968 and 1969. When actual growth of 7.3 and 8.2 percent materialized, this development resulted in a very visible wage-profit gap. Government and business unwillingness to readjust wage levels led to a wave of spontaneous and unofficial strikes, led by the metal workers. This wave was followed by change in official union-wage policy toward greater militancy. The result was the highest nominal (12.1 percent) and real (8.1 percent) wage increase in 20 years. As in Britain and Sweden, rank-and-file workers in Germany embarked upon the 1970s with a lesson that militancy pays while tripartism does not.

Concerted Action never really recovered from this blow. As a detailed

German survey of union documents of this period shows, union publications reflected "the disappointment of not being able to develop Concerted Action into an instrument of codetermination." They also reveal that at the Congresses of IG Metal and the DGB in 1969, "the leadership had to react to the criticism and pressure . . . to legitimate trade union involvement." After unsuccessful attempts at reform in 1969 and 1971, both the DGB and BDA were said to have no longer "any interest in this meeting," Concerted Action was now seen merely as "a kind of gossip session over coffee."[47] A large number of other interest groups were brought into the meetings in the early 1970s, although the government's main interest remained in discussions with the DGB and BDA on wage restraint. But since both sides were now highly aware of the "politicization of information," and since the meetings now included over a hundred people, it was clear that the institution now exercised more symbolic than substantive influence.[48]

Especially under Chancellor Brandt, the SDP government tried to renew the foundation for tripartism's credibility among the unions by offering *quid pro quo*s in the guise of reforms in labour legislation. Particularly important in this respect were the 1972 amendments to the *Works Constitution Act* that finally provided avenues for trade union influence on the shop floor by means of the works councils. The 1976 legislation that extended a modified form of codetermination to the supervisory boards of all companies with over 2,000 employees should also be seen in this light.[49] And, as was done elsewhere in this period, the government also offered tax concessions to encourage wage-restraint agreements. All this activity temporarily facilitated continued DGB participation in tripartism and helped to produce informal wage moderation in the early 1970s, but it hardly re-established the viability of Concerted Action itself. A second course of unofficial strikes occurred in 1973 alongside an unexpected surge of inflation; BDA policy statements became increasingly bloody minded, reminding firms of member solidarity in the face of wildcat strikes; and the government itself returned to monetarist economic policies for the rest of the 1970s, indicating that the German conversion to Keynes, especially that of the Federal Bank, had been only skin deep.[50]

Concerted Action itself came to a rather ignominious end in 1977. After the employers decided to challenge the constitutionality of the new codetermination law in the courts (the challenge was eventually thrown out, but on the grounds that the law did not establish true representational parity), the DGB took this breaking of the ideology of social consensus by the employers as an opportunity to announce its withdrawal from the Concerted Action meetings. It was a belated recognition that "Concerted Action has provided an effective public forum for the government and Bundesbank to present their views and their findings, to generate discussions and to mobilize public support. It has not been

associated with any significant increase in the overall political and economic status of the unions."[51]

This is not to say, however, that the DGB developed any alternative political strategy to tripartism. Throughout the 1970s, the DGB promoted the same elaborate system of Economic and Social Councils that it had first canvassed in the early 1950s. Although these proposals got nowhere, they provided the basis for a great deal of speculation in Germany about the new possibilities of a tripartite industrial policy and investment planning, and for the unions intensifying their efforts to exercise discipline over dissident members so as to prove that the leadership still had the ability to carry through collaborative arrangements with the state and capital.[52] A major institutional example of the new "industrial structural policy" approach was the Commission for Economic and Social Change that ran from 1971 to 1977, with five union, five employer and seven "scientific" representatives appointed by the federal government. Its mandate was to "illuminate what possibilities exist in economic and social policy to promote technical and social changes in the German economy within the framework of a market economy." Given this rather explicit warning that the Commission should not try to broaden the political agenda pertaining to social policy or technological change, it should not be surprising that the Commission reported that it had excluded all policy options except those on which "consensus seemed attainable at an earlier stage of discussion." There was no shortage, however, of the old rhetorical flourish, as the report went on to assume "that a fundamental consensus exists over medium- and long-term economic policy objectives between all societally relevant groups in the Federal Republic. . . . The work of the commission bears testimony to the existence of a fundamental consensus."[53] Although the union representatives themselves affirmed the belief that the "unions received for the first time the possibility to participate jointly in the conceiving of the long-term planning of governmental tasks," a rather more sober assessment has been offered by Kastendiek et al.:

> In no way did the federal government expect concrete reform proposals from [the Commission] for social policy. . . . Rather, on the side of the state, the crucial thing was the process of clarifying opinion 'in itself', the attempt to establish a further foundation and further area of activity for the social partnership approach. The report is not significant because of its contents, but — as a journalist accurately perceived — its strength lies elsewhere. Because of the composition of the commission, it is a component part of the process by which the fundamentals of the social consensus are held intact in the Federal Republic.[54]

The Commission reported in 1977, the same year that the DGB left Concerted Action. In 1978, convinced that structural unemployment was the scourge of the future, the German trade-union movement made

the 35-hour week their central bargaining concern, while the BDA responded by placing the reduction of the work week on a "taboo catalogue" of union demands to which individual member firms might not agree without permission from their employers' association. Such were the fundamentals of consensus on social policy in the face of technological change that emerged from the Commissions' six-year effort. For the first time in 50 years, a six-week strike in the steel and iron industry occurred over the issue of reduced work time. The strike was won by the employers, who again used the sympathy lock-out to drain the unions' strike funds. It is not by accident that while the number of strikes in Germany has been comparatively low in the postwar period, the average number of workers per strike exceeds that in Britain and in the United States.[55] The issue of reduced work time was put off at this point for five years, a period during which the level of unemployment rose steadily to today's figure of over 9 percent. When the Social Democratic government was defeated in the interim and was no longer able to restrain union discontent, the stage was set for the longest and most bitter industrial confrontation in the history of the Federal Republic.[56] There will be those, of course, who will see the situation as an extraordinary aberration from a normal trend of social consensus.

Austria: The Exception that Proves the Rule?

The story of tripartism's recurrent instability that has been recounted to this point could be retold for other European countries, although, of course, attention would still have to be paid to the specifics of each particular experience. Thus the explicitly corporatist institutions and the statutory wage restraint of the Netherlands actually survived the first reconstruction phase of tripartism to become the showcase of the purveyors of social consensus in the 1950s. By the end of that decade it was under severe pressure and collapsed, by 1963, in a rank-and-file union revolt. Stability for tripartite institutions was never reestablished over the following two decades.[57] The Norwegian tripartite experience, although institutionalized in the 1960s in a "Contact Committee" that in formal terms epitomized a model of corporatism in liberal democracy, actually paralleled quite closely the rise and fall of the various phases of the more informal Swedish arrangements.[58] Only one country's tripartite experience appears to stand out for its remarkable stability, and it is to this Austrian case that we may finally turn our attention.[59]

Although the establishment of the famous Parity Commission for Prices and Wages is the usual starting point for discussions of Austrian tripartite practice, it is, in fact, the earlier and more fundamental "historic compromise" between the Austrian Socialist Party (SPÖ) and the conservative People's Party of Austria (ÖVP) that is the necessary point of departure for understanding postwar developments. The 20-year-long

governing coalition that the leaders of these two highly centralized parties inaugurated in 1945 was not just a reflection of electoral and parliamentary balance, but involved a sharing-out of power, office and right of patronage through the Austrian state and society. Modern Austria has been characterized by its cultural, social and political division into socialist and bourgeois — "red" and "black" — camps, each presided over by a hegemonic party that permeated a broad range of social organizations and integrated their leaderships into the executive bodies and parliamentary caucuses of the parties.

To a significant extent this whole edifice rested on the ability of the parties to exercise political leadership within the system of Economic Chambers that in the Austrian case alone derives directly from the pre-democratic corporatism of the 19th century. For all entrepreneurs, workers, farmers and professionals, membership is compulsory in self-governing corporate bodies, established by law and funded by statutory levies, which exercise representative functions in relation to the state (above all, the right to review proposed legislation in their sphere) as well as to perform legal, educational, economic and social services for their members. The system goes back to the 1848 Revolution, after which a Chamber of Trade was established to give the bourgeoisie political representation. In the course of the revolutionary episode at the close of World War I, new Chambers of Labour and Agriculture were created as means of overriding the emergence of Soviet-style bodies among workers, soldiers and peasants. These chambers were the basis of the functional socialism of the revisionist Austro-Marxism that developed after the war, but once the Socialists left office in 1920, the chambers quickly ran afoul of the opposition of the Austrian bourgeoisie to power sharing and atrophied until they were finally abolished during the German rule of Austria. The chambers were recalled into being as part of the new "historic compromise" of 1945, however, and reconstructed so that their organizational structures parallelled identically the federal structure of the state. Each chamber became informally aligned, moreover, with one of the political parties and its associations, yielding it access to people they were unable to organize and the use of chamber resources to strengthen the loyalty of their respective flocks. Thus it is the Federal Chamber of Trade and Industry that engages in centralized wage bargaining in Austria, rather than the voluntary employers' associations, although predominant influence within the chamber is exercised by small capital's Federation of Business (itself directly linked to the ÖVP) and by big capital's Association of Austrian Industrialists. Similarly the ÖVP, through its organization of farmers, asserts its leadership in the Chamber of Agriculture. On the side of the Chamber of Labour, the socialist-led trade union confederation, the ÖGB, is dominant as candidates for office in the chambers actually run on party lists and organize themselves in party-affiliated caucuses (Franktionen). Although the

ÖGB itself is the really effective voice of labour and actually engages through its 15 industrial unions in collective bargaining with the Chambers of Trade, the Chamber of Labour supplements the ÖGB's role through a large staff that provides research, educational and vocational programs, and legal and administrative services on company-level issues and on welfare-state entitlements. The interlocking positions among leading party, association and chamber personnel ensure a degree of concentrated élitism in Austria that would have had even Robert Michels rubbing his eyes.

This centralization of political power was in large part the work of the SPÖ. Its participation in government from 1945 to the present (except for four years) was the key to transforming the "failed corporatism" of the interwar years into the "social partnership" showcase that Austria claims for itself today.

The SPÖ's hegemony over working-class life, most visible in the prewar years in the socialist public housing estates of Vienna, was consolidated after the war through the extreme centralization imposed upon the Austrian trade-union movement under socialist control. The integration between ÖGB and SPÖ policy was effected not only by ties of working-class loyalty, but more directly by overlapping leadership. (The current president of the ÖGB is not only one of the original architects of the postwar compromise, but also vice-president of the SPÖ and one of the Speakers of the National Council, as the Austrian legislative assembly is called.) This meant, in turn, that the union leadership was brought into the state apparatus to a degree unparallelled in other capitalist societies, as reflected in the continuing occupancy of the Social Administration Ministry by an ÖGB leader ever since 1945, as well as by direct ÖGB representation in the Austrian National Bank and the boards of the nationalized industries and banks. Unlike the German case, moreover, the ÖGB was not excluded from the works councils on the shop floor. It has often been said that the real decisions of trade-union policy at every level are made in the socialist party caucus meetings and that, in turn, union leaders came to feel, as one functionary at the Chamber of Labour put it in an interview, that "Austria as it is now has been built mainly by us."

None of this should be taken to mean that Austria has become in any sense a socialist society, but only that the sharing of power with the bourgeoisie that the SPÖ tried and failed to effect after World War I came to be achieved after 1945. The conditions for this achievement (apart from the critical factor of the more favourable economic conjuncture) are often attributed in Austria itself to the fact that the leaders of both sides shared the same fascist prisons after the 1934 Civil War, the rise of Dollfuss and the German *Anschluss*. But no less important was the geopolitical situation of postwar Austria: the four-power occupation that determined Austrian neutrality with respect to NATO and the Warsaw

Pact also determined, in good part, the postwar domestic "consensus" between the parties. If the Marshall Plan ensured that Austria remained capitalist, the danger of Soviet confiscation of German capital in Austria led no less to the bourgeoisie's acceptance of the nationalization in 1946–47 of many of the largest industrial enterprises and banks. The SPÖ had long before given up any revolutionary pretensions and quickly embraced a mixed economy that over the course of the postwar period, was so readily available to the expansion of the private sector by foreign (especially German) direct investment that today only some 10 percent of total employment remains in state-owned or state-controlled enterprises. But the nationalizations, even while they did not change production relations or even prevent the private sector's rapid return to predominance over the public sector, did give leaders of the SPÖ and the trade unions, at least for a critical period, a degree of direct presence in positions of economic power unmatched in other capitalist societies. All this is vital to understanding the long-term stability of Austrian tripartism.

The first attempt to institutionalize tripartism in economic policy in Austria after the war did not actually survive the first reconstruction phase. A series of five voluntary, centralized wage-and-price pacts were concluded by the ÖGB and the Chamber of Trade under the auspices of an Economic Commission. In the context of the inflationary trends at the turn of the decade, however, an attempt to establish an Economic Directorate within the Cabinet to coordinate decisions on price controls, rationing and other economic policies was declared unconstitutional. This move was followed by a shift to the right on economic policy in the early 1950s, in the form of the adoption of monetary and fiscal policies similar to those in Germany. This action produced a severe recession, which pushed the rate of unemployment as high as 9 percent (averaging over 6 percent for the first half of the decade). As rapid growth brought virtual full employment before the end of the decade, however, the Austrian coalition government moved rapidly to embrace Keynesianism. And as in Scandinavia, it was at the initiative of the union leaders that the new institutions of what they like to call "economic partnership" were fashioned.

It was the concern of the leaders of the ÖGB that sectoral wage settlements in the mid-1950s were beginning to fragment their centralized control over the union movement and might endanger a "responsible" wage policy that precipitated the establishment of the Parity Commission. But this reassertion of control could only be legitimated insofar as the ÖGB could be seen to have a greater degree of control over price formation, as well. After the president of the Chamber of Trade agreed to the proposal made by the President of the ÖGB, the Parity Commission was established in 1957, by Cabinet resolution, but without any legislative sanction to back it. Meeting monthly and chaired by the

Federal Chancellor, the Commission consisted of representatives of various Ministries, as well as two representatives each from the Chamber of Trade and Agriculture and from the Chamber of Labour and ÖGB (thus ensuring red-black parity). Initially, the detailed work of the Commission took place through a subcommission on prices, as the ÖGB jealously guarded trade-union freedom in wage determination. The prices subcommission supplemented an already quite extensive system of statutory price controls (covering, in particular, basic food stuffs and, until recently, coal and gasoline) and subjected to further voluntary control about 200 standard articles (excluding imports) that in the early years covered about 30 percent of consumer prices in a standard consumer basket and about 60 percent of industrial producer prices. The voluntary system operated under a process whereby firms submitted intended price increases to the Chamber, which then presented them to the subcommission, where they were assessed in terms of unavoidable increases in costs (excluding labour costs associated with local wage drift). Although the price regulation was by no means stringent (since the subcommission relied only on information from the companies themselves), the ÖGB was able to use this process as a basis for its own centralized wage-restraint policy. This policy limited wage increases to productivity growth — whether by industry or nationally was always ambiguous — and eschewed any role for collective bargaining as a redistributive mechanism.

After long wrangling led by the business side with the intent of bringing wage determination under the purview of the Parity Commission, the ÖGB finally assented to the establishment, in 1962, of a wages subcommission. This subcommission did not actually have to approve wage increases, however, but only the timing of the start of negotiations. In 1963, a third subcommission was added, the Economic and Social Advisory Board, which met the demand of the unions for an extension of the Commission's purview to the full range of economic policy. The research staff of the organizations (as well as experts from universities and research institutes) prepared, too, for a "scientific" discussion of policy, while maintaining the parity principle of unanimity on each side.

It is generally agreed that the main impact of the Parity Commission, brought home by the work of each of its subcommissions, occurred in the mid-1960s, when the Commission helped to lay the basis for Austria to be virtually the only country in Europe to avoid the wage and strike explosion of the late 1960s. The reasons for this achievement may be attributed, in part, to the fact that the degree of real wage restraint required of Austrian workers in the mid-1960s was less than that demanded under statutory controls in Britain or under the overly cautious orientation data in Germany or the wage-solidarity scheme in Sweden.[60] In achieving this end, the role of labour's experts on the Advisory Board, which undertook "thorough analyses of the inflation-

ary process . . . showing the wide range of measures needed to combat the phenomenon," seems to have been important.[61] A second factor was certainly that the visibility of price controls was far greater in Austria than elsewhere, and in the mid-1960s, regulation appears to have had a direct real effect, as well as a mere symbolic effect, on prices.[62] Finally, the Austrian government (which was an ÖVP government from 1966 to 1970) negotiated a tax-wage bargain in 1966–67 that "resulted in a postponement of wage negotiations for three months, smaller wage claims than previously, and an extension of the duration of the wage contract as a trade-off for tax cuts in October 1967."[63] This development anticipated what other governments were only to manage a decade later, when they were trying to re-establish the viability of their incomes policies in the third phase.

Each of these factors gave the ÖGB leadership the kind of protection against the rank-and-file repudiation that occurred elsewhere. But it would be wrong to overemphasize these factors in relation to the extreme centralization of the ÖGB, in any case, and the enormous barrier that this centralization places in the way of the rank-and-file initiative that elsewhere underlay the spontaneous militancy of European working classes at the end of the 1960s. Indeed, one of the leading European industrial relations authorities, John Windmuller, has said of the ÖGB that "It would be difficult to carry central authority over collective bargaining further without transgressing the limits acceptable in a democratic society."[64] The ÖGB is the only union centre in a liberal democracy (except for Israel) that is unitary and non-federative — that is, where members belong to the central body, and where the individual unions are not affiliates of the centre, but administrative arms of it, holding central control over their internal structures, activities and leadership, which is a constitutional obligation of ÖGB headquarters. The ÖGB collects dues directly from the members, rather than being subsidized by the affiliates. As a result it retains about 80 percent of total dues income, whereas confederations in other countries, such as the TUC and AFL–CIO, dispose of as little as 2 to 3 percent of such income or in the more centralized federations of Norway, Sweden or the Netherlands, only as much as 18 percent.[65] With such centralized control of funds, of course, goes a great deal of centralized control over strikes, personnel, and other matters. While the 15 industrial unions actually conduct bargaining, "expert recommendations and expert guidelines from ÖGB headquarters set a general framework and ultimate rules of reference for negotiations at lower levels." At the local level, the *Works Constitution Act* itself not only requires works councils to act "explicitly according to strictly cooperative principles, but establishes a hierarchy of levels of decision and bargaining with a clear primacy of sectoral and national (macro-economic) units of representation over firm representatives." In any case, once elected, works councillors and shop

stewards become full-time union functionaries integrated into the union hierarchy. They never return to the shop floor. They are, moreover, the *only* directly elected union representatives; all other positions, up to the very top, are elected indirectly or appointed. Rigid organizational discipline, it should be remembered, is reinforced by the overlapping party identification so that dissent within the union is at one and the same time political dissent, a "double treason."

Given this structure (one largely imposed in 1945 by the Socialist leadership to foreclose the possibility of ideological conflict within the labour movement of the kind that existed in the interwar years), it is scarcely surprising that the industrial militancy of the late 1960s passed Austria by. But this was not necessarily a positive development, for it left a rather unresponsive bureaucratic leadership untouched and unmoved to take up those new participatory reform proposals which elsewhere made for certain democratic advances in union rights relating to management during the third phase of tripartism. In the Austrian case, incomes policy in the 1970s became, in fact, more onerous. As Austria's very high productivity growth of the 1950s tapered off, and as the economy became more and more directly integrated with that of Germany (not only in terms of trade, but in terms of the growing dominance of German multinational capital in Austrian domestic economy), the basis of the ÖGB's wage policy shifted from an attempt to maintain a countercyclical wage pattern in line with Keynesian precepts toward using wage restraint to support a "hard currency policy," which tied the value of the Austrian schilling to an appreciating Deutschmark, and which provided room for wage increases only in terms of the degree of profitability of the export sector.

This more severe wage-restraint policy was accompanied by a decreasing role for price controls, as officially regulated prices rose more rapidly than unregulated ones, and as the commodities subject to voluntary control come to constitute less than 20 percent of the CPI basket. In general, the importance of the Parity Commission has declined in the 1970s. A former member of the Economic and Social Advisory Board has written:

> With opening of Austrian markets to foreign competition, macroeconomic policies, especially with respect to the exchange rate, have assumed primary importance for regulating the interval price level. Although wage restraints have remained an essential prop of this policy, direct links between ÖGB and the governing party would have been sufficiently strong to achieve this purpose even without the mediation of the Wage Commission.
> . . . Though the main institutions of social partnership . . . have been left intact, subtle changes have certainly taken place. On the whole, they have tended to diminish somewhat the place occupied by the system as a whole in the actual making of policy as well as in the eyes of the public. Some signals of this change have been mentioned: the grand policy meetings of the Joint

> Commission, always surrounded by much publicity, have become irregular, and the work of the Price Commission has diminished somewhat in importance.[66]

In fact, lurking behind the scenes there has been growing tension and contradiction. After large wage increases were temporarily secured in 1975 (and consensually so, as in Sweden, in the mistaken impression on all sides that a quick recovery would follow the first oil shock), wages have been more effectively restrained. As compensation the unions have secured two main returns, both of which have caused discomfort to capital. First, although the underlying trend toward unemployment has been rising significantly, the actual extent of unemployment has been limited by labour hoarding, especially in the nationalized industries or in those private sector firms that the unions can influence through the credit policies of the nationalized banks.[67] Secondly, social expenditures under the Kriesky Government were expanded in the 1970s, as employer costs in terms of the "social wage" constituted an increasingly larger proportion of unit labour costs relative to other European countries.[68] Despite the fact that the really big winners, in light of the ÖGB's effective restraint, have been the high-paid professional strata (especially doctors), business in Austria, albeit less so than in Sweden, has turned its concerns about falling profits and productivity into criticisms of the unions. Throughout the 1970s, the Chamber of Trade has constantly complained of Austria having become a trade-union state under ÖGB dominance. New strains were also seen in terms of differences over economic strategy between Chamber of Labour's economic experts on the Advisory Board and the Socialist government. Indeed, it has been said that:

> The most visible outward signal of a changing mood was the decline in the authority of the Advisory Board. Increasingly hampered by disagreements, arising not so much among the experts as at the top level of functionaries, its activities slowed down and almost stopped in the early 1970s after continued quarrels over its findings on the budget. Although this crisis was finally resolved, the board has never recovered its former importance. To avoid further breakdowns, sensitive issues were avoided in assignments, and it has been occupied with more or less innocuous general subjects — such as the utilization of "social indicators" in measuring welfare or environmental problems — and with more technical matters of forecasting and improvement of statistics.[69]

The SPÖ government moved, in the 1970s, to assuage business concerns by promoting investment incentives and to this end opened new channels of access to the Federation of Industrialists, although this action involved bypassing to some extent the Chamber of Trade, where small business is numerically dominant. And it is certainly true that Austrian politics today is obsessed with the issue of budget deficits (which

amount to less than 5 percent of GNP). In the fall of 1983, a severely deflationary fiscal package designed to reduce the deficit was introduced; its main foci were increased taxes and public expenditure cutbacks. The chief economies were made in pensions, housing allowances, birth and maternity benefits, health and unemployment insurance as well as through cuts in personnel, overtime and pensions in the civil service. Ministers themselves described the package as "brutal, yet necessary" and conceded that it would increase unemployment which, at its late-1983 level of near 5 percent, was extremely high by the standards of tripartism's years of success.[70] What may be most significant from the perspective of the mythology of the social partnership is that this critical economic package does not appear to have been discussed through the institutions of the Parity Commission. No doubt the head of the ÖBG gave his blessing, but was he wearing his ÖBG hat or his speaker's hat or his party vice-president's headgear?

A closer look at the Austrian system in 1984 thus reveals a rather less happy picture than superficial accounts still based on the rhetoric of the 1960s would lead one to believe. The ÖVP, now in opposition for over a decade, has led a sustained attack on the September 1983 budget; it also made large inroads against the Socialists in the Chamber of Labour elections in the spring of 1984. To be sure, there is no widespread rejection of the institutions and practices of tripartism in Austria, but there is evidence of growing discontent with the sheer bureaucratic pragmatism of social partnership, which is by no means only expressed by the new Green Party here as in Germany. There is a visible sense that a loss of perspective for social change has robbed the labour movement of its vitality and democratic thrust. As one participant in the system admitted:

> This whole structure is not conducive to internal democracy. In fact, it can hardly be denied that the widening of the scope of co-determination at the top level has been generally accompanied by a decline of rank-and-file activity in all organization. This is especially notable in the trade unions, where internal democracy forms an essential part of the value system. A prominent Socialist of the younger generation has put this point succinctly. The lack of an active feedback from below, he wrote, "carries with it the danger of alienation of the institutions (of social partnership) from their original purpose of existence and thus also alienation between the representatives and those whom they represent." This widely shared view generally does not imply total rejection of the system, but seeks to remedy its democratic insufficiency by revitalizing internal channels of communication.[71]

The question remains, however, whether the old structures and practices of behind-the-scenes élite collaboration can possibly be sustained in the face of such a democratic thrust. It is certainly significant that even sympathetic observers are beginning to recognize that the system not

only functioned better during the period of growth than over the past decade, but that the "formal social partnership structures [may] have obscured real events" or, as one Austrian economist commented: "The cat has vanished and only the grin remains."[72]

Tripartism and the Crisis: An Economic Assessment

The experience of countries with tripartite political structures has differed widely, and it is difficult, perhaps impossible, to assess directly the economic impact of tripartism. While some direct testing of incomes policy has taken place — providing extremely mixed results — much of the evidence for evaluating tripartism as a more inclusive practice must be gathered indirectly by examining other measures of economic performance. Usually, such exercises involve, as well, the construction of some fairly gross categorization of "the extent of tripartism" in each country in order to support correlations. The fundamental dilemma entailed in this kind of research has been noted by one of the foremost students of European corporatism, Gerhard Lehmbruch: "Either we content ourselves with measures of questionable validity . . . or we stick to high methodological standards as far as measurement is concerned [which] can result in a strong temptation to look for less complex problems to investigate where data are more easily available and variables can be measured without major difficulties."[73] The greatest danger lies in the construction of an ahistorical, static category of allegedly corporatist countries and the correlation of this category with an average measure of performance over a certain number of years, while we simultaneously neglect to examine whether the very conditions that made for the stability of tripartite structures were not being undermined in the same period, thereby invalidating any predictive capacity of the study.

Because of the problems associated with these kinds of studies, we have opted to undertake only a modest cross-national evaluation of economic performance along several dimensions. While recognizing that cross-national comparisons may be a useful counterpoint to country-specific case studies, we would still insist that the former cannot be an adequate replacement for the latter because of the complexity and specificity of the various histories of tripartite practice. This variety makes extremely tenuous any attempt to draw strict conclusions on the basis of comparing a group of allegedly tripartite countries with a non-tripartite control group. Any presumed advances in rigour would be counterbalanced by the distortions involved in lumping together diverse countries. Thus we shall seek only to examine the economic record of some of the countries that are alleged to have benefitted from tripartite practices in relation to the overall performance of the advanced capitalist countries. We will present some of the findings of various cross-

country empirical surveys of economic performance and economic welfare. Our purpose is fairly simple: by examining empirical evidence, it should be possible to check the strength of claims on the positive relationship between tripartism and economic well-being. We shall give special emphasis to examining the economic performance of those four European countries — Sweden, Norway, Austria and West Germany — that have been most touted for the alleged contribution of the practice, or at least the ideology, of tripartite social consensus. We have chosen Norway rather than Britain here because it provides a stronger case to test, given the latter country's notorious economic weaknesses. In so doing, we skew the evidence in favour of tripartism. (It would be entirely logical to argue that the repeated instability of British tripartite structures was the product of the failure of tripartism to produce economic results. As we have seen, the British before Thatcher kept returning to the tripartite solution with dogged insistence, establishing more formal institutional arrangements than the Swedes, and these arrangements proved no less unstable — and somewhat more long lasting — than those of the Germans).[74]

Economic Growth

The growth performance of all the postwar advanced capitalist economies is one of the most striking features of this phase of capitalist development. Indeed, it is anomalous in the whole history of capitalism for its rate, length and breadth. In the long boom lasting from 1950–73, though it was beginning to exhaust itself in the late 1960s, it is clear that a number of key factors came together at the end of the war to produce conditions favourable to expansion. These were: the prior "cleansing" of unproductive and less dynamic capitals by the Depression and war; large pools of skilled cheap labour; successful capitalist weakening of working-class organizations; a cluster of technological innovations favouring productivity growth and mass consumer demand; abundant raw materials; new markets and freer trade; and a favourable environment from the strength of U.S. hegemony and the safeguard from recession provided by new "Keynesian economic policy." These factors were significant and helped produce the high investment ratio of the period. It is to be stressed that this development produced favourable supply and demand conditions.

Considering that growth in tripartite political structures and the concomitant attempt to control the nominal wage as a strategic variable for economic policy are also, to a lesser extent, characteristic of this epoch, it may be useful to try to assess to what extent tripartism can be assessed as a major independent factor in producing high growth. The extent to which tripartism is determined to be a major factor may do much to clarify the benefits to be obtained from tripartite structures (especially

TABLE 2-2 Longer-run GDP Trends in Europe (average annual percentage changes)

	1870–1913	1922–37	1953–73	1973–79
France	1.6	1.8	5.3	3.0
Germany	2.8	3.2	5.5	2.4
Italy	1.5	2.3	5.3	2.6
United Kingdom	1.9	2.4	3.0	1.3
Spain		1.7[a]	6.1[b]	2.8
Austria	3.2	0.8	5.7	3.1
Belgium	2.0	1.4	4.3	2.3
Denmark	3.2	2.9	4.3	2.1
Finland	2.8	4.4	5.0	2.3
Ireland		1.5[c]	3.3	3.6
Netherlands	1.9	1.9	4.9	2.5
Norway	2.1	3.4	3.9	4.4
Sweden	2.8	3.5	3.9	1.8
Switzerland	2.1	2.1[d]	4.6	−0.4
Total	2.0[e]	2.5[e]	4.8[f]	2.4[f]

Source: A. Boltho, "Growth," in *The European Economy: Growth and Crisis*, edited by A. Boltho (Oxford: Oxford University Press, 1982), p. 10.

a. NNP; 1922–35.
b. 1954–73.
c. 1926–39.
d. 1924–37.
e. Using 1929 GDP weights at 1970 United States prices.
f. OECD Europe.

for those countries, such as Canada, where institutional structures not conducive to tripartism exist). The same factor will also help clarify whether the "booms and busts" of capitalist economies are based on the broader structures of accumulation and class relations or on specific economic policies, or on given tripartite political structures.

In an important article, Andrea Boltho evaluates the reasons for the postwar economic growth of the European economy, its decline in the 1970s, and the disparities of inter-country growth rates.[75] In the text, Boltho presents long-run output growth rates for a number of periods. As he looks at the postwar period, some cracks already begin to appear in the tripartite thesis. Countries with long-term tripartite arrangements do not systematically perform better over the boom and, in the case of Sweden and Norway, actually perform worse than the average for all countries. During the crisis, here grossly depicted as covering the period 1973–79, there are similar mixed results: oil-rich Norway, a special case, does much better in weathering the crisis, Austria somewhat better, Germany is only average, and Sweden falls below average. In all cases, with the exception of Norway (which has subsequently stagnated), the countries with extensive tripartite practices have stagnated along with the other advanced capitalist countries. All the advanced capitalist

TABLE 2-3 Key Economic Indicators for the OECD Area[a] (average annual growth rates in percent)

	1970–73	1973–75	1975–79	1980	1981	1982[b]
Real GDP	5.1	0.1	4.1	1.2	1.5	−0.25
Consumer prices	6.0	12.3	8.8	12.9	10.6	7.75
Productivity[c]	4.0	0.0	2.5	0.6	1.2	0.50
Employment	1.1	0.0	1.4	0.5	0.2	−0.75

Source: OECD, *Employment Outlook* (Paris: OECD, 1983), p. 15.
a. Weighted averages for the OECD area.
b. Provisional figures.
c. Real GDP per person in employment.

countries have had to succumb to the contradictions of capitalist production.

The important fact is that all the advanced capitalist countries enjoyed the successes of the long boom, and all went into crisis with the exhaustion of the boom. In explaining these secular trends, tripartite political structures do not appear to be significant and cannot be seen as an explanatory variable. Moreover, these political structures did not prevent the countries that make extensive use of them from entering into "crisis." The rate of growth of output for the European economy fell from an average of about 5 percent in the late 1960s, to 2–3 percent in the mid-to-late 1970s, and is declining even further to 1–2 percent in the 1980s. Only Norway had stronger absolute growth in the 1970s, because of its exploitation of large petroleum reserves, but it, too, collapsed in the 1980s.

By the late 1960s and early 1970s, changes in the structure of accumulation, the employment relationship, and long-term trends in declining profitability produced a major turning point, exhausting the expansionary forces. With the oil price shock, the wage explosion from working-class militancy, widespread inflationary pressures, and the effects on the economy of a further expansion of the welfare state, a crisis of over-accumulation spread throughout the advanced capitalist world. While it is not necessary for our purposes here to indicate the precise causes of the present capitalist crisis, it is important to indicate how pervasive these various facets of the crisis were, and how little tripartite structures did to prevent their spread.

Perhaps the best indicator of the generalized capitalist crisis has been the decline in the rate of profit. Whatever way it is measured — pre- or post-taxes, gross or net, related to fixed or to total capital — profit rates have declined, reducing the investable surplus, and thereby slowing the rate of accumulation.

As the OECD concluded in its study *Profits and Rates of Return* (1979), "the overwhelming impression . . . is of declining profit shares and rates of return."[76] While different countries have different profit shares,

TABLE 2-4 Gross Profit Share in Manufacturing[a] (percentages)

	Actual Shares			Trend changes[b]	
	1960–66	1967–73	1974–79	1960–73	1973–79
France	24	27	23	1.52	−3.54
Germany	36	34	30	−1.29	0.71
Italy	39	35	32	−2.10	0.35
United Kingdom	30	27	22	−1.32	0.17
Austria	44	42	33	−1.01	−2.40
Belgium	36	36	31	−0.17	−1.53
Denmark	28	26	23	−1.36	−2.29
Finland	38	37	35	−0.17	−0.88
Netherlands[c]	40	36	30	−1.53	−3.14
Norway	20	20	19	1.07	−8.83
Sweden	28	26	23	−1.61	−7.40

Source: K. Faxen, "Incomes Policy and Centralized Wages Formation," in *The European Economy: Growth and Crisis*, edited by A. Boltho (Oxford: Oxford University Press, 1982), p. 372.

a. Operating surplus in percent of value added at current prices.

b. Percentage rate of changes in shares obtained from regression estimates of exponential trends.

c. Excluding petroleum and gas.

which partly explains the relative dynamism of certain capitals, the coefficients of trends in profitability are overwhelmingly negative. What they certainly point out is that the "tripartite" countries have not fared better than others. Germany, Austria and Sweden all suffered declines in the share of profits and rates of return, with strongly negative changes in the coefficients of trends. In Germany and Austria this experience was especially marked, but those countries started out with higher initial levels, which also enabled them to lengthen the boom relative to other countries. In contrast, Sweden suffered less severe changes, but also had much lower initial levels. For Norway, profit shares declined less and later than in other countries as a result of its oil-export boom; nonetheless, trend changes as the crisis lengthened became sharply negative. The OECD study makes two additional points of importance for our purposes. First, the declines in rates of return were more pronounced for European countries — where incomes policies have been most predominant — than for Canada, the United States and Japan. Secondly, the declining rates of return were not just the result of falling profit shares, which incomes policy might most directly affect, but were also the result of a tendency for capital productivity to fall. These conclusions have also been reached in the McCracken Report.[77]

In his study directly concerned with the impact of incomes policy and centralized wage formation on economic performance, Karl Faxen reaches similar conclusions. Profit performance of those countries with the centralized wage formation of tripartite structures did not perform

TABLE 2-5 Profit Shares and Rates of Return Trend Percentage Rates of Change[a]: 1958–1976

	Manufacturing				Industry plus Transport			
	Profit Share		Rate of Return		Profit Share		Rate of Return	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
	(percent per year)							
Canada	−0.4	−0.8	−1.1	−1.4	−0.1	−0.4	−0.6	−1.1
United States[b]	−0.1	−0.3	−0.4	−0.7	−0.7	−1.1	−1.1	−2.0
Japan[b]	−0.9	−1.7	−1.8	−3.9	−0.8	−1.6	−0.2	−2.4
Australia[c]	−0.5	−0.9	—	—	−0.1	−0.4	—	—
Denmark[c]	−1.5	—	—	—	−0.5	—	—	—
Germany	−2.3	−4.2	−3.1	−4.6	−0.7	−1.1	−1.9	−2.9
Italy[d]	−2.0	−2.5	−1.7	−2.0	−1.8	−2.1	−1.2	−1.8
Netherlands	−1.1	−1.1	—	—	−0.9	−1.3	—	—
Sweden	−0.1	−0.4	−0.6	−0.9	−1.4	−2.9	−2.3	−4.1
United Kingdom	−3.4	−6.2	−5.4	−8.5	−0.6	−2.2	−1.9	−4.1

Source: OECD *Profits and Rates of Return* (Paris: OECD: 1979), p. 23.

Notes: Manufacturing is limited to manufacturing sector. Excluded from both categories are government services, agriculture, distribution and miscellaneous services. These exclusions are based on the grounds that the categories named included large numbers of small unincorporated businesses. Industry and Transport includes all non-financial corporate and quasi-corporate enterprises. It includes mining, manufacturing, public utilities, construction, and transport.

a. These figures show the trend percentage changes from year to year in the share, or rate of return, not the number of percentage points by which the share or rate of return changes: for example, a fall from 20 percent to 19 percent represents a decline of 5 percent (i.e. 1/20 X 100 in the table), not a decline of 1 percent.

b. The U.S. data for industry plus transport also include distribution and miscellaneous services.

c. The trends for these countries cover the period from 1958 to 1975.

d. The trends for Italy cover the period from 1955 to 1972.

— Not available.

differently from the economies without these features for the periods both of 1960–73 and post-1973. He concludes, "[It] would seem to support the view that average profit levels in an economy are in the medium term determined at a macroeconomic level by factors other than centrally negotiated wage increases."[78]

The problems of profitability give the grossest, but perhaps most significant, indication of the breakdown in the processes of capital accumulation. In the profound crisis of the 1970s, other measures and factors of economic performance also signal a deterioration of the conditions of production and immaterial impact of tripartite political structures and incomes policies.

Upon examining growth of real GDP, we find the countries with tripartite practices doing no better, and sometimes worse than, the OECD average and suffering consistently the same cyclical pattern of growth as the other advanced capitalist countries. This is especially

TABLE 2-6 Growth of Real Gross Domestic Product in OECD (Average annual growth rates in percentages)

	1960–70	1970–73	1973–75	1975–79	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Australia	5.4	4.6	2.1	2.6	5.4	1.8	2.5	3.2	1.0	2.7	4.3	1.6	4.1	−0.8	−1.3	5.3
Austria	4.8	5.6	1.2	4.0	4.9	3.9	−0.4	4.6	4.4	0.5	4.7	3.0	−0.1	1.1	1.0	1.0
Belgium	4.9	5.1	1.2	2.8	6.2	4.5	−1.9	5.5	0.6	3.2	2.5	3.2	−1.1	1.1	−0.0	1.0
Canada	5.2	6.8	2.3	3.7	7.5	3.5	1.1	6.1	2.2	3.9	3.4	1.0	4.0	−4.2	3.0	5.0
Finland	4.8	5.3	1.9	2.5	6.5	3.2	0.6	0.3	0.4	2.3	7.6	6.0	1.5	2.5	2.8	3.3
France	5.6	5.6	1.7	3.7	5.4	3.2	0.2	5.2	3.1	3.8	3.3	1.1	0.3	1.6	0.5	0.0
Germany	4.7	3.9	−0.7	4.0	4.6	0.5	−1.7	5.5	3.1	3.1	4.2	1.8	−0.1	−1.0	1.3	2.0
Italy	5.7	3.9	0.2	3.8	7.0	4.1	−3.6	5.9	1.9	2.7	4.9	3.9	0.1	−0.3	−1.5	2.0
Japan	11.1	8.1	0.5	5.9	8.8	−1.0	2.3	5.3	5.3	3.0	5.1	4.9	4.0	3.2	3.0	4.0
The Netherlands	5.2	4.5	1.2	3.1	5.7	3.5	−1.0	5.3	2.4	2.5	2.4	0.9	−0.8	−1.6	1.3	1.3
Norway	4.3	4.6	4.7	4.2	4.1	5.2	4.2	6.8	3.6	4.5	5.1	4.3	0.3	−0.6	1.5	−0.5
Sweden	4.6	2.3	3.3	1.1	4.0	3.2	2.6	1.1	−1.6	1.8	3.8	1.7	−0.5	0.4	1.8	2.5
United Kingdom	2.8	4.1	−1.0	2.4	7.6	−0.9	−0.9	3.7	1.2	3.5	2.0	−2.6	−1.3	2.3	2.5	2.3
United States	3.9	4.7	−1.1	4.4	5.5	−0.7	−0.7	4.9	5.2	4.7	2.3	−0.2	3.0	−2.4	3.5	5.0
Total OECD	5.0	5.1	0.1	4.0	6.1	0.7	−0.3	4.8	3.8	4.0	3.1	1.2	2.0	−0.5	3.3	5.5

Sources: OECD, *The Challenge of Unemployment* (Paris: OECD, 1982), p. 118 and OECD, *Economic Outlook* (Paris: OECD, December, 1983), pp. 18–19, 152. Figures for 1983 and 1984 are based on OECD estimates.

TABLE 2-7 Gross Fixed Capital Formation as Percentage of GDP

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
United States	18.1	18.2	17.6	18.1	18.7	19.1	18.4	17.0	17.2	18.3	19.5	19.8	18.5	18.0	16.6
Japan	33.2	34.5	35.5	34.3	34.2	36.4	34.8	32.4	31.3	30.5	30.8	32.1	32.0	31.0	29.6
Germany	22.4	23.3	25.5	26.1	25.4	23.9	21.6	20.4	20.2	20.3	20.8	21.9	22.8	21.9	20.5
France	23.3	23.4	23.4	23.6	23.7	23.8	24.3	23.3	23.3	22.3	21.4	21.5	21.7	21.1	20.5
United Kingdom	18.9	18.3	18.5	18.3	18.3	19.4	20.2	19.5	18.9	17.9	18.0	18.0	17.4	15.7	15.4
Italy	20.3	21.0	21.4	20.4	19.8	20.8	22.4	20.6	20.0	19.6	18.7	18.8	19.8	20.2	19.0
Canada	21.5	21.4	20.8	21.8	21.7	22.4	23.0	24.0	23.1	22.7	22.2	22.6	22.8	23.5	21.1
Total of above countries	20.7	21.1	21.3	21.5	22.1	23.0	22.4	21.0	20.8	21.2	22.0	22.4	21.8	21.2	19.7
Austria	25.7	25.1	25.9	27.9	30.2	28.5	28.4	26.7	26.0	26.7	25.6	24.7	25.2	25.0	23.1
Belgium	2.15	21.3	22.7	22.1	21.3	21.4	22.7	22.5	22.1	21.7	21.7	20.8	21.3	18.1	17.3
Finland	22.6	23.4	25.9	27.3	27.7	28.7	29.6	31.0	27.7	26.6	23.4	22.8	24.7	24.3	24.0
Netherlands	26.9	24.6	25.8	25.9	23.7	23.1	21.8	20.9	19.3	21.1	21.3	21.0	21.0	19.3	18.3
Norway	26.9	24.3	26.5	29.7	27.7	29.3	30.5	34.2	36.3	37.1	31.8	27.7	24.8	27.5	24.6
Sweden	23.9	23.2	22.5	22.0	22.2	21.9	21.5	20.9	21.2	21.1	19.4	19.8	20.2	19.2	18.8
Australia	26.5	26.2	25.9	26.2	24.3	22.9	22.8	23.2	23.1	22.8	22.8	22.2	23.1	25.1	24.9
Total OECD	21.1	21.4	21.7	21.9	22.4	23.2	22.7	21.5	21.2	21.5	22.0	22.2	21.8	21.3	19.9

Source: OECD, *Economic Outlook* (Paris: OECD, December 1983), p. 154.

TABLE 2-8 Investment Ratios[a] (percentages)

	1950–54	1955–59	1960–64	1965–69	1970–73	1974–79
France	16.5	17.2	20.8	23.3	24.3	22.5
Germany	20.5	23.4	24.5	23.6	24.4	21.2
Italy	20.2[b]	24.1	27.0	23.8	23.3	20.0
United Kingdom	13.2	15.3	17.7	20.3	20.3	18.8
Spain	—	15.9	17.6	22.6	23.0	21.9
Austria	17.6	20.3	24.2	25.5	27.3	26.0
Belgium	19.4[c]	19.7	22.8	23.9	22.3	21.9
Denmark	16.6	17.5	21.7	24.5	26.1	22.8
Finland	25.2	27.4	29.2	28.4	29.1	27.0
Ireland	17.1	15.6	17.6	22.4	26.1	26.2
Netherlands	18.7	21.1	22.2	25.2	24.3	20.8
Norway	27.2	28.4	27.7	28.0	30.3	32.0
Sweden	17.5	19.1	21.4	22.3	21.8	20.2
Switzerland	18.7	21.6	26.3	25.3	26.8	23.3
OECD Europe	17.3	19.9	22.3	23.2	23.7	21.5

Source: A. Boltho, "Growth," in *The European Economy: Growth and Crisis*, edited by A. Boltho (Oxford: Oxford University Press, 1982), p. 23.

a. Gross fixed investment in percent of GDP at constant prices.
b. 1951–54.
c. 1953–54.

notable for the early 1980s, when countries with tripartite structures also moved into recession.

While the average growth of output for all the OECD members for 1980–82 was 1.2, 2.0 and −0.5 percent, Germany had a growth of only 1.8, −0.1 and −1.0 percent; Austria did better with rates of 3.0, −0.1 and 1.1 percent, but suffered a severe recession in 1978, when other countries were expanding; Sweden had more stable low rates of growth but a similar poor performance of growth of 1.7, −0.5 and 0.4 percent; finally, Norway's oil boom gave it a relatively favourable performance throughout the 1970s, though it has subsequently experienced severe recession, with growth rates of 4.3, 0.3 and −0.16 percent for the 1980–82 period.

The decline in the dynamism of these four countries — Norway, Sweden, Austria, Germany — is also reflected in their declining capitalization. Investment and capital-formation ratios give a crucial meaning to the general conditions of accumulation and the likely direction of capital accumulation. (See Table 2-7.) It is highly significant that while in virtually all countries these ratios have declined since the early 1970s, the initially higher levels of the countries with tripartite practices also declined, along with the other countries, but at an apparently relatively higher rate.

In other words, their higher levels of capital formation and investment through the mid-1970s may account for some of their relative success and a subsequent decline in their performance more closely paralleling the

other advanced capitalist countries as these levels fell off. Tripartite policies would not appear to offer much explanation for any relative trend of "dynamism" of these countries.

Unemployment and Inflation

The two measures of economic performance that have especially characterized this crisis of capitalism have been high levels both of unemployment and of inflation. Along these dimensions, the countries with tripartite structures appear to have fared better than some other advanced capitalist countries. However, this performance has not been as strong as is often alleged and, as with the case of growth and capital formation, has been increasingly less favourable.

For example, Germany managed to lower its rate of inflation substantially in the mid-1970s, but while other countries have had declining rates in the 1980s, Germany's rate of inflation has accelerated somewhat since 1977. This has also been the trend in Austria. For Sweden and Norway, it is quite simply the case that the rates of inflation have been higher and continue to be higher than the OECD average throughout the 1970s and 1980s. Norway, furthermore, appears to have an accelerating rate of inflation. Whatever the impact of tripartite structures on Austria and Germany — and this must be explored further — in no way can these countries be said to produce systematically better results with respect to moderating inflation, especially in light of the role of the monetary authorities in restricting money supply in Germany and the effect of pegging the Austrian exchange rate to the West German mark.

The trends in unemployment through the crisis depict a similar process of better performance in the mid-1970s, in the initial phases of the crisis, but poorer trend performance as the crisis persisted. While in absolute levels the rates remain low in Austria, Norway and Sweden, relative to other countries, this has been the trend for all four countries. Germany's unemployment rate has more than doubled since the mid-1970s, as has the rate for all four countries, and it is approaching the OECD average. Again, the evidence suggests that tripartite structures are unable to prevent crisis or that there is a general trend amongst capitalist countries toward increasing unemployment levels.

One explanation of better employment performance might be productivity changes. However, productivity fell dramatically for all OECD countries in the early 1970s, and it has been the continuing nature of this decline into the 1980s that has set an entirely new framework for evaluating the results of tripartism.

The countries with tripartite practices did not escape this decline, and moreover, did not do markedly better than many others in productivity performance, and hence in labour-cost and wage performance. Productivity, like profits, is an inclusive indicator of capitalist economic perfor-

TABLE 2-9 Consumer Prices: Percentage Changes from Previous Year

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
United States	4.2	5.4	5.9	4.3	3.3	6.2	11.0	9.1	5.8	6.5	7.7	11.3	13.5	10.4	6.1
Japan	5.3	5.2	7.7	6.1	4.5	11.7	24.5	11.8	9.3	8.1	3.8	3.6	8.0	4.9	2.7
Germany	2.9	1.9	3.4	5.3	5.5	6.9	7.0	6.0	4.5	3.7	2.7	4.1	5.5	5.9	5.3
France	4.5	6.4	5.2	5.5	6.2	7.3	13.7	11.8	9.6	9.4	9.1	10.8	13.6	13.4	11.8
United Kingdom	4.7	5.4	6.4	9.4	7.1	9.2	16.0	24.2	16.5	15.8	8.3	13.4	18.0	11.9	8.6
Italy	1.4	2.6	5.0	4.8	5.7	10.8	19.1	17.0	16.8	18.4	12.1	14.8	21.2	19.5	16.6
Canada	4.0	4.5	3.4	2.8	4.8	7.6	10.9	10.8	7.5	8.0	8.9	9.2	10.2	12.5	10.8
Total of above countries	4.1	5.0	5.7	5.0	4.3	7.5	13.3	10.9	8.0	8.1	7.0	9.3	12.2	10.0	7.1
Australia	2.7	2.9	3.9	6.1	5.8	9.5	15.1	15.1	13.5	12.3	7.9	9.1	10.2	9.7	11.2
Austria	2.8	3.1	4.4	4.7	6.3	7.6	9.5	8.4	7.3	5.5	3.6	3.7	6.4	6.8	5.4
Belgium	2.7	3.8	3.9	4.3	5.5	7.0	12.7	12.8	9.2	7.1	4.5	4.5	6.6	7.6	8.7
Finland	9.2	2.2	2.8	6.5	7.1	10.7	16.9	17.9	14.4	12.2	7.8	7.5	11.6	12.0	9.3
Netherlands	3.7	7.5	3.6	7.5	7.8	8.0	9.6	10.2	8.8	6.4	4.1	4.2	6.5	6.7	5.9
Norway	3.5	3.1	10.6	6.2	7.2	7.5	9.4	11.7	9.1	9.1	8.1	4.8	10.9	13.6	11.3
Sweden	1.9	2.7	7.0	7.4	6.0	6.7	9.9	9.8	10.3	11.4	10.0	7.2	13.7	12.1	8.6
Total OECD	4.0	4.8	5.6	5.3	4.7	7.8	13.4	11.3	8.6	8.9	7.9	9.8	12.8	10.5	7.8

Source: OECD, *Economic Outlook* (Paris: OECD, December 1983), p. 161.

TABLE 2-10 Standardized Unemployment Rates in 14 OECD Countries: Percent of Total Labour Force

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
United States	3.7	3.5	3.4	4.8	5.8	5.5	4.8	5.5	8.3	7.6
Japan	1.3	1.2	1.1	1.1	1.2	1.4	1.3	1.4	1.9	2.0
Germany	1.3	1.5	0.9	0.8	0.9	0.8	0.8	1.6	3.6	3.7
France	1.9	2.6	2.3	2.4	2.6	2.7	2.6	2.8	4.1	4.4
United Kingdom	3.3	3.2	3.0	3.1	4.0	4.4	3.3	3.2	4.7	6.0
Italy	5.3	5.6	5.6	5.3	5.3	6.3	6.2	5.3	5.8	6.6
Canada	3.8	4.4	4.4	5.6	6.1	6.2	5.5	5.3	6.9	7.1
Major seven countries	2.8	2.9	2.7	3.2	3.8	3.8	3.4	3.7	5.5	5.5
Australia	1.9	1.8	1.8	1.6	1.9	2.6	2.3	2.6	4.8	4.7
Austria	1.9	2.0	2.0	1.4	1.3	1.2	1.1	1.4	1.7	1.8
Belgium	2.6	3.1	2.3	2.1	2.2	2.7	2.8	3.1	5.1	6.6
Finland	2.9	3.8	2.8	1.9	2.2	2.5	2.3	1.7	2.2	4.0
Netherlands	1.6	1.5	1.0	1.0	1.3	2.2	2.2	2.7	5.2	5.5
Norway	1.5	2.1	2.0	1.6	1.5	1.7	1.5	1.5	2.3	1.8
Sweden	2.1	2.2	1.9	1.5	2.5	2.7	2.5	2.0	1.6	1.6
Total of above countries	2.8	2.8	2.6	3.1	3.6	3.7	3.3	3.5	5.2	5.3

	1977	1978	1979	1980	1981	1982	1983		
							Q1	**Q2**	**Q3**
United States	6.9	6.0	5.8	7.0	7.5	9.5	10.2	9.9	9.3
Japan	2.0	2.2	2.1	2.0	2.2	2.4	2.6	2.7	2.7
Germany	3.6	3.5	3.2	3.0	4.4	6.1	7.1	7.8	7.8
France	4.7	5.2	5.9	6.3	7.3	8.0	8.0	8.2	8.0
United Kingdom	6.4	6.1	5.6	6.9	10.6	12.8	13.6	13.5	12.9
Italy	7.0	7.1	7.5	7.4	8.3	8.9	9.6	10.3	9.2
Canada	8.0	8.3	7.4	7.5	7.5	10.9	12.5	12.3	11.6
Major seven countries	5.4	5.1	5.0	5.6	6.5	7.9	8.5	8.6	8.1
Austrailia	5.6	6.2	6.2	6.0	5.7	7.1	9.5	10.2	10.2
Austria	1.6	2.1	2.1	1.9	2.5	3.5	4.4	4.3	—
Belgium	7.5	8.1	8.4	9.0	11.1	13.1	14.3	14.7	14.5
Finland	6.0	7.4	5.9	4.6	5.1	5.8	5.9	6.3	—
Netherlands	5.3	5.3	5.4	6.0	8.6	11.4	12.9	13.9	13.9
Norway	1.5	1.8	2.0	1.7	2.0	2.6	3.9	3.5	3.2
Sweden	1.8	2.2	2.1	2.0	2.5	3.1	3.3	3.5	3.7
Total of above countries	5.3	5.2	5.1	5.8	6.7	8.2	8.9	8.9	8.6

Source: OECD, *Economic Outlook* (Paris: OECD, December 1983), p. 163.

TABLE 2-11 **Productivity[a] Trends (average annual percentage changes)**

	1953–79	1953–61	1961–73	1973–79
France	4.3	5.0	4.6	2.8
Germany	4.4	5.2	4.5	3.2
Italy	4.6	5.5	5.6	1.5
United Kingdom	2.2	2.0	2.9	1.2
Spain	5.0[b]	4.0[b]	6.0	4.2
Austria	4.8[c]	5.5[c]	5.1	2.9
Belgium	3.3	2.8	4.1	2.3
Denmark	2.8[d]	3.2	3.1	1.3
Finland	4.2	4.8	4.4	2.5
Ireland	3.5[c]	3.4[c]	4.3	2.2
Netherlands	3.4	3.1	4.2	2.3
Norway	2.8	3.1	2.9	2.2
Sweden	2.6[d]	3.0[d]	3.2	0.6
Switzerland	2.6[d]	3.1[d]	2.9	0.9
OECD Europe	3.8	4.1	4.3	2.3

Source: A. Boltho, "Growth," in *The European Economy: Growth and Crisis*, edited by A. Boltho (Oxford: Oxford University Press, 1982), p. 22.

a. GDP per employed.
b. 1954–79 and 1954–61.
c. 1951–79 and 1951–61.
d. 1950–79 and 1950–61.

mance and the general dynamism of the economy and, thus, is also indicative of the generalized crisis occurring in *all* OECD countries.

Throughout the 1970s and into the 1980s, unemployment levels increased across the OECD on a trend basis, only moderately influenced by cyclical fluctuations in economic activity. This occurred for all countries, and those countries that appeared to be doing better in relative terms now have increasing unemployment levels, while other countries' unemployment levels remain high, but are moderating. One of the crucial dimensions of employment trends is developments in the labour supply. When we examine the determinants of this dimension more closely, we begin to get a better explanation of the apparently relatively lower unemployment levels of the countries with tripartite structures being studied. A key aspect of total labour-force determination is growth in the working-age population (aged 15 to 64). While the rate of growth for the working-age population has remained fairly constant from 1960 to 1980, at about 1.1 percent per annum, the four countries had rates of growth well below this level throughout this period. Only Austria exceeded this level in 1980. This circumstance suggests relatively easy absorption of new labour-force participants with low rates of economic growth.

The second key facet of labour-force growth is participation rates. For the OECD, this has remained basically constant from 1960 to 1980, at around 69 percent. In Germany and Austria the participation rates have

TABLE 2-12 Real Earnings and Labour Costs — Percentage Changes

	Real Earnings			Real Labour Costs			Productivity		
	1980	1981	1982	1980	1981	1982	1980	1981	1982
United States	−1.2	1	0.75	0	0.25	0.25	−0.5	0.75	0.25
Japan	0.6	2.25	3.50	4.5	3.75	3.75	3.2	3	3
Germany	1.1	−0.75	0	1.6	1	0.75	0.9	0	2.50
France	1.8	1.25	2.25	3.7	2.50	2	0.9	1.50	2.75
United Kingdom	5.2	2.75	−0.25	2.6	1.50	1	0.5	2.75	2.25
Italy	0.3	2.25	1.75	0.3	3.75	1.75	2.5	−0.50	1.50
Canada	−1.5	−1.50	−0.25	−1.6	0	0	−2.7	0	−0.50
Major seven countries	0.4	1.25	1.25	1.5	1.50	1.25	0.6	1.25	1.50
Austria	0.7	1	0.75	2.2	2.50	1.25	2.7	0	2.50
Belgium	1.0	0.75	1.25	3.4	2.25	1	2.6	0.25	1.50
Finland	1.1	0	1.50	2.6	0.50	1	1.5	0.50	1.75
Netherlands	−0.4	−1.75	0.25	0	−0.50	−0.25	0.2	0	1.50
Norway	−1.0	−3	0.25	−5.2	−1.50	0.75	1.5	0.25	−1.25
Spain	2.1	1.25	1.75	3.9	2.25	2.75	4.8	5	4.25
Sweden	−0.3	−0.75	−1.75	0.2	0.25	−1	0	0.25	0.50
Australia	0.6	4	2.50	−0.5	3	2.75	−0.4	0.50	1.25
Total OECD	0.4	1	1.25	1.5	1.50	1.25	0.8	1.25	1.50

Source: OECD, *Economic Outlook* (Paris: OECD, December 1983), p. 44.

TABLE 2-13 Rates of Growth of Nominal and Real Hourly Compensation in Manufacturing in Selected Countries of the OECD, Selected Periods, 1962–79

Country	1962–69	1969–73	1973–75	1975–79
Austria				
Nominal	8.4	13.3	16.2	9.0
Real	4.8	7.2	6.7	3.4
Denmark				
Nominal	10.3	14.5	19.2	10.6
Real	4.2	6.9	6.1	0.5
France				
Nominal	8.5	12.8	19.9	15.1
Real	4.4	6.2	6.4	4.9
Germany				
Nominal	7.9	12.8	12.5	7.9
Real	5.3	7.1	5.6	4.1
Italy				
Nominal	9.6	19.4	27.7	19.3
Real	5.4	12.1	8.1	n.a.
Netherlands				
Nominal	11.7	15.0	17.6	8.2
Real	6.3	7.7	6.9	2.2
Norway				
Nominal	9.0	13.0	18.9	11.7
Real	5.0	4.8	7.6	2.7
Sweden				
Nominal	9.2	12.6	17.7	13.2
Real	5.2	5.4	7.2	3.2
United Kingdom				
Nominal	7.5	14.9	26.2	15.0
Real	3.5	6.4	5.1	1.3
United States				
Nominal	4.7	7.5	10.2	9.3
Real	1.9	2.4	0.1	1.5

Source: R.J. Flanagan, D.W. Soskice, and L. Ulman, *Unionism, Economic Stabilization and Incomes Policies* (Washington, D.C.: Brookings Institution, 1983), p. 7.

declined over this period, leaving these countries below the OECD average. Sweden and Norway have both had increasing levels of participation.

The demographic and participation-rate changes have combined to produce quite different rates of growth in the total labour force. The OECD growth of total labour force stood at 9.4 percent for 1973–80; Austria and Germany had rates well below this figure at 2.8 and –1.1 percent respectively. Sweden also was below the OECD average, at

TABLE 2-14 Growth in the Working Age Population (15–64) (average annual growth rates in percentages)

	1960–70	1970–73	1973–75	1975–79	1980
Australia	2.2	2.5	1.9	1.6	1.7
Austria	−0.2	0.5	0.2	0.6	2.0
Belgium	0.3	0.5	0.7	0.7	0.6
Canada	2.3	2.2	2.6	1.9	1.6
Finland	1.0	0.9	0.7	0.4	0.4
France	1.1	0.9	0.8	0.7	0.4
Germany	0.2	0.8	0.1	0.4	0.9
Italy	0.6	0.4	1.0	0.7	−1.2
The Netherlands	1.5	1.3	1.4	1.4	1.4
Norway	0.7	0.7	0.6	0.6	0.6
Sweden	0.7	0.0	−0.1	0.2	0.4
United Kingdom	0.2	0.1	0.1	0.4	0.5
United States	1.6	1.7	1.5	1.5	1.3
Weighted average for all OECD countries	1.1	1.2	1.2	1.1	1.0

Source: OECD, *The Challenge of Unemployment* (Paris: OECD, 1982), p. 122.

TABLE 2-15 Participation Rates[a] (percentages)

	1960	1970	1973	1979	1980
Australia	—	70.7	70.5	69.3	70.6
Austria	72.9	66.1	65.8	65.5	65.1
Belgium	62.2	63.0	63.6	64.4	64.2
Canada	62.8	64.5	66.7	71.0	71.8
Finland	78.0	72.0	71.7	71.7	72.7
France	70.3	67.7	67.6	68.0	68.1
Germany	70.3	69.5	68.3	65.7	65.6
Italy	66.6	59.5	58.9	60.3	61.9
The Netherlands	60.4	58.3	56.6	53.6	53.5
Norway	64.3	64.1	67.8	74.5	75.6
Sweden	74.3	74.3	75.5	80.5	81.0
United Kingdom	71.7	72.4	72.9	73.9	73.5
United States	66.8	67.7	68.3	72.1	72.4
Weighted average for all OECD countries	69.4	68.2	68.2	69.0	69.1

Source: OECD, *The Challenge of Unemployment* (Paris: OECD, 1982), p. 123.
a. Defined as the total labour force divided by the population of working age (15–64) at mid-year.

8.6 percent, and only oil-boom Norway, with a growth rate at 15.9 percent, experienced substantial increases in its labour force, although this trend has been decelerating as the economy has slowed.

The United Kingdom appears to have the same favourable participation and demographic tendencies as these countries, yet it has tended to

TABLE 2-16 Total Labour Force (average annual growth rates in percentages)

	1960–70	1970–73	1973–75	1975–79	1980
Australia	2.8	2.4	2.2	1.2	2.8
Austria	−1.1	0.3	0.8	1.0	0.4
Belgium	0.7	0.8	1.0	0.8	0.3
Canada	2.6	3.3	3.6	2.9	2.8
Finland	0.2	0.7	1.3	0.1	1.9
France	0.7	0.8	0.5	0.9	0.6
Germany	0.1	0.2	−1.1	0.0	0.9
Italy	−0.5	0.1	1.0	1.3	1.4
The Netherlands	1.2	0.3	0.6	0.4	1.1
Norway	0.7	2.6	2.0	2.2	2.0
Sweden	0.7	0.5	1.9	0.8	1.2
United Kingdom	0.3	0.3	0.5	0.6	−0.3
United States	1.8	2.1	2.0	2.6	1.7
Weighted average for all OECD countries	1.0	1.2	1.0	1.5	1.1

Source: OECD, *The Challenge of Unemployment* (Paris: OECD, 1982), p. 124.

TABLE 2-17 Decomposition of Total Labour Force Growth, 1973–80 (percentages)

	Rate of Growth of Total Labour Force	Contributions of: Working Age Population	Contributions of: Participation Rate
Australia	12.4	12.5	0.1
Austria	2.8	3.9	−1.1
Belgium	5.8	4.8	1.0
Canada	24.0	16.0	8.0
Finland	4.5	3.2	1.3
France	5.6	4.9	0.7
Germany	−1.1	2.4	−3.5
Italy	8.9	3.7	5.2
The Netherlands	4.1	9.8	−5.7
Norway	15.9	4.1	11.8
Sweden	8.6	1.2	7.4
United Kingdom	3.2	2.4	0.8
United States	17.3	11.1	6.2
Weighted average for all OECD countries	9.4	8.1	1.3

Source: OECD, *The Challenge of Unemployment* (Paris: OECD, 1982), p. 125.

have high and rising rates of unemployment during the 1970s. However, it is perhaps the exception that proves the "rule" that tripartite structures have not been a significant factor in producing low unemployment levels. Despite a long period of experimentation with tripartite institutions, the United Kingdom never had the previous material basis for withstanding

TABLE 2-18 Total Employment (average annual growth rates in percentages)

	1975–79	1979–81	1980	1981	1982
Australia	0.8	2.4	2.9	1.9	0.4
Austria	0.9	0.6	0.6	0.7	—
Belgium	0.1	−1.1	−0.1	−2.1	—
Canada	2.8	2.7	2.7	2.6	3.2
Finland	−0.9	2.5	3.1	1.8	1.6
France	0.4	−0.3	0.1	−0.7	—
Germany	0.7	0.2	0.9	−0.6	−0.3
Italy	0.8	0.9	1.5	0.4	−0.2
The Netherlands	0.4	−0.4	1.1	−1.3	—
Norway	2.3	1.6	2.2	0.9	0.7
Sweden	0.7	0.5	1.2	−0.2	−0.1
United Kingdom	0.3	−2.3	−0.5	−4.1	−2.5
United States	3.5	0.8	0.5	1.1	−0.8
Seven major countries	1.8	0.4	0.7	0.2	−0.6
OECD Europe	0.3	−0.6	0.2	−1.3	−0.9
Total OECD	1.5	0.4	0.6	0.1	−0.6

Source: OECD, *Employment Outlook* (Paris: OECD, 1983), p. 20.

the crisis that other countries have had, the basis which has enabled those countries to delay the onset of the crisis. In the United Kingdom, there has been a lengthy duration of low levels of capital formation, productivity growth, and difficulties of technological change and advancement. The United Kingdom has experienced the crisis for such a lengthy period that it had little room or basis for absorbing or re-employing excess labour. The history of the U.K. experience appears to indicate the failure of both tripartite and monetarist practices to overcome the economic crisis and the limits of capitalist production.

Employment trends also help to provide some explanation of the better relative performance of the countries with tripartite practices as well. In Austria employment growth has been relatively constant and slightly above the OECD average, while Norway has managed an even more favourable performance. This helps to account for Austria's low unemployment levels when coupled with the very modest labour-force growth. In Norway, the strong employment growth helps to explain the country's ability to absorb the rapidly growing labour force.

The cases of Sweden and Germany are more complex. Sweden has made modest gains in total employment growth and labour-force growth. This is indicative of the very low growth record and the slowly increasing unemployment level. As the growth of the German economy has been cut back, employment-level growth has declined. It is remarkable in the case of Germany that the sharply declining labour-force growth has not been able to absorb the employment shock, and unemployment levels have therefore

TABLE 2-19 Contributions of Full- and Part-time Employment to Employment Changes, 1973–81 (thousands)

	Period	Both Sexes	
		Full-time	Part-time
Australia	1973–81	413	393
Belgium	1973–81	−117	127
Canada	1975–81	1,085	485
Finland	1976–81	73	17
France	1973–81	493	540
Germany	1973–81	−270	685
Italy	1973–81	2,120	−154
Japan	1973–81	3,010	1,150
Luxembourg	1973–79	1	2
Netherlands	1973–79	196	162
Norway	1975–81	73	133
Sweden	1973–81	−18	364
United Kingdom	1973–81	−626	−86
United States	1973–81	10,274	2,158

Source: OECD, *Employment Outlook* (Paris: OECD, 1983), p. 44.

begun to accelerate markedly. Indeed, in the 1980s, it is impossible to categorize West Germany as a low-unemployment country.

Several additional points should also be made that help to account for the relatively low unemployment levels of these countries. First, there has been a quite substantial increase in part-time employment in Germany, Sweden and Norway (data on Austria are not available) throughout the 1970s crisis, a circumstance implying that part-time jobs became an important means of employing the work force.

Indeed, for Germany and Sweden there was an actual absolute decline in full-time employment from 1973 to 1981. Secondly, while the OECD countries have had declining actual average annual hours worked, data available for Germany and Sweden suggest that those countries showed the sharpest decline in the trend during the 1970s. This pattern reflects the increase of part-time work, but also short-time employment and work-sharing. Thirdly, as in most OECD countries, these four countries have had higher rates of female unemployment, with unemployment for both sexes increasing during the 1970s; there have also been massively increasing rates of unemployment among youth, and an increasing amount and extension of long-term unemployment. Fourthly, there has been a general move in these countries to the repatriation of guest-workers.

A final aspect of employment trends that appears especially relevant has been the growth of public sector employment. As the economy slows down, growth of the government sector may be a key factor in keeping unemployment rates low. While public sector employment has increased in general in OECD countries, there was diverse experience among

TABLE 2-20 Full-time and Part-time Employment Since the First Oil Shock (average annual growth rates)

	1973–75		1975–79		1979–81	
	Full-time	Part-time	Full-time	Part-time	Full-time	Part-time
Australia	0.4	7.5	0.8	6.6	2.2	4.3
Belgium	−0.1	22.1	−0.4	8.7	−0.9	5.0
Canada	2.6	6.8	2.0	7.0	2.1	6.6
Finland	—	—	−0.4	2.3	2.4	5.9
France	0.5	15.3	0.4	2.6	−0.1	1.8
Germany	−2.4	6.2	0.3	1.8	1.2	5.4
Italy	2.2	11.3	1.4	−12.7	1.1	3.4
Japan	−0.7	12.5	1.7	0.9	1.9	3.9
Netherlands	0.7	14.5	0.8	9.1	—	—
Norway	—	—	1.0	6.2	1.1	3.5
Sweden	1.7	5.2	−0.9	6.9	−0.1	2.6
United Kingdom	−0.5	5.5	0.9	−1.9	−2.8	−2.6
United States	0.8	2.3	4.1	3.8	0.5	0.6

Source: OECD, *Employment Outlook* (Paris: OECD, 1983), p. 45.

TABLE 2-21 Average Actual Hours Worked per Person in Employment (average annual growth rates in percentages)

	1960–70	1970–73	1973–76	1976–79	1979–81
Belgium	−0.9	−2.2	−3.1	−0.8	2.0
Canada	−0.8	−0.5	−0.7	−0.6	−0.6
Finland	−0.4	−1.1	−0.6	−0.3	−1.1
France	−0.5	−1.0	−1.1	−0.8	−0.2
Germany	−0.9	−1.5	−0.8	−1.2	−1.2
Italy	−0.6	−2.2	−0.8	−0.1	−0.1
Japan	−0.8	−1.8	−1.6	0.3	−0.3
Netherlands	−1.4	−2.0	−1.7	−1.9	0.9
Norway	−1.1	−2.4	−1.1	−1.5	−0.6
Sweden	−0.9	−1.7	−0.7	−1.6	−0.7
United Kingdom	−0.1	−0.3	−1.1	−0.9	−2.9
United States	−0.5	−0.2	−1.1	−0.2	−0.6

Source: OECD, *Employment Outlook* (Paris: OECD, 1983), p. 34.

individual countries. Most notable has been the rapid increase in public sector employment in Sweden, where levels have more than doubled between 1950 and 1979, accelerating especially during the 1970s. Austria and Norway have also had higher-than-average rates of public sector employment. While Germany has moved upward substantially, its slowing rate of public sector employment has paralleled increased levels of unemployment. Public sector employment growth appears to have made a major contribution to total employment growth in a period of stagnation in the private sector. Countries that have used this sector to increase

TABLE 2-22 Share of the Public Sector in Total Employment, 1960–79 (percentage)

	1960	1965	1970	1975	1978	1979
Australia	n.a.	22.2	22.9	25.5	26.0	25.9
Belgium	10.8	12.0	14.1	16.9	18.3	18.5
Canada	12.2	13.2	13.9	15.2	16.9	17.6
Finland	n.a.	17.6	19.5	20.3	19.8	18.9
France	7.8	9.3	11.8	14.7	17.8	18.1
Germany	12.1	11.6	12.4	13.7	14.2	n.a.
Italy	8.0	9.8	11.2	13.9	14.5	14.7
Japan	8.1	9.9	10.9	13.4	14.2	14.3
Luxembourg	n.a.	n.a.	5.8	6.5	6.5	6.5
Netherlands	11.7	11.5	12.1	13.5	14.6	14.7
Norway	12.7	13.8	16.4	19.2	20.8	21.1
Sweden	12.8	15.3	20.6	25.5	29.0	29.8
United Kingdom	14.9	15.7	18.0	21.0	21.4	21.5
United States	15.7	16.7	18.0	18.0	16.8	16.5
Mean (weighted)	11.6	12.5	14.2	16.4	17.5	17.7
Coefficient of variation	28	24	25	24	25	26

Source: OECD, *Employment in the Public Sector* (Paris: OECD, 1982).

employment have managed to maintain relatively lower unemployment levels. But insofar as this achievement has produced a greater weight for the state sector in the economy or promoted increased deficits, it has also produced, as we have seen, a strong capitalist reaction in these countries, undermining the stability of tripartite political arrangements.

Closer inspection of unemployment levels indicates that those countries which had significant tripartite political structures have done better, but recently they have all experienced increasing unemployment levels; moreover, those levels are continuing to climb at rates higher than the OECD average. Additionally, there exist many factors specific to labour-market conditions in these countries that account for unemployment levels relatively lower than those of most OECD countries. It cannot be said, however, that tripartite political practices themselves have been the major factor affecting these countries' unemployment problem.

Income Distribution

It is often alleged that tripartite political structures may allow for greater equity amongst the social partners, and that the political determination of incomes by incomes policy enables a narrowing of earnings differentials. If this is a valid objective of incomes policy, there is little evidence of this income redistribution in countries with extensive tripartite practices. Indeed, one is not struck at all by the dissimilarities of income

TABLE 2-23 Government Final Consumption Expenditure as Percentage of GDP

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
United States	19.2	18.8	19.2	18.5	18.4	17.7	18.4	18.9	18.6	18.1	17.5	17.4	18.1	17.8	18.7
Japan	7.4	7.3	7.4	8.0	8.2	8.3	9.1	10.1	9.9	9.9	9.7	9.8	10.0	10.1	10.3
Germany	15.5	15.6	15.8	16.9	17.1	17.8	19.3	20.5	19.9	19.6	19.7	19.6	20.1	20.6	20.3
France	13.5	13.3	13.4	13.4	13.2	13.2	13.6	14.4	14.6	14.7	15.0	14.9	15.2	15.8	16.2
United Kingdom	17.6	17.2	17.6	17.9	18.4	18.3	20.0	21.9	21.4	20.3	19.9	19.8	21.4	21.9	22.0
Italy	14.5	14.2	13.8	15.5	16.1	15.5	15.1	15.4	14.8	15.3	15.9	16.2	16.4	18.2	18.4
Canada	17.3	17.6	19.2	19.2	19.1	18.5	18.6	20.0	19.7	20.3	20.1	19.3	19.6	19.6	21.0
Total of above countries	16.8	16.5	16.7	16.5	16.4	15.8	16.6	17.4	17.1	16.7	16.2	16.3	17.0	17.0	17.6
Austria	14.8	15.1	14.7	14.8	14.6	15.1	15.8	17.2	17.6	17.4	18.3	18.1	17.9	18.4	18.6
Belgium	13.6	13.6	13.4	14.1	14.5	14.5	14.7	16.4	16.5	16.8	17.4	17.6	17.9	18.8	18.3
Finland	15.5	14.7	14.7	15.5	15.6	15.3	15.5	17.5	18.5	18.9	18.8	18.4	18.6	19.2	20.0
Netherlands	15.2	15.3	15.6	16.0	15.9	15.6	16.3	17.4	17.2	17.4	17.7	18.1	17.9	17.8	17.8
Norway	16.6	16.8	16.9	17.9	18.2	18.2	18.3	19.3	20.0	20.2	20.4	19.5	18.8	19.1	19.4
Sweden	20.6	20.8	21.4	22.5	22.7	22.7	23.2	23.8	24.9	27.5	27.9	28.3	28.8	29.3	29.3
Australia	12.5	12.1	12.2	12.5	12.6	13.0	13.9	15.5	16.0	16.3	16.8	16.0	16.6	17.1	17.4
Total OECD	16.5	16.2	16.3	16.3	16.1	15.6	16.3	17.2	17.0	16.7	16.4	16.5	17.1	17.1	17.7

Source: OECD, *Economic Outlook* (Paris: OECD, December 1983), p. 157.

TABLE 2-24 General Government Financial Balances Surplus (+) or Deficit (−) as Percentage of Nominal GNP/GDP

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
United States	−1.7	−0.3	+0.5	−0.2	−4.2	−2.1	−0.9	+0.2	+0.6	−1.2	−0.9	−3.8	−3.8	−3.7
Japan	+1.4	+0.4	+0.5	+0.4	−2.6	−3.8	−3.8	−5.5	−4.8	−4.5	−4.0	−4.1	−3.4	−2.5
Germany	−0.1	−0.5	+1.2	−1.3	−5.7	−3.4	−2.4	−2.5	−2.7	−3.1	−3.9	−3.5	−3.1	−2.1
France	+0.7	+0.8	+0.9	+0.6	−2.2	−0.5	−0.8	−1.9	−1.1	+0.3	−1.9	−2.6	−3.4	−3.8
United Kingdom	+1.5	−1.2	−2.7	−3.8	−4.6	−4.9	−3.2	−4.2	−3.2	−3.5	−2.8	−2.0	−2.7	−2.3
Italy	−7.1	−9.2	−8.5	−8.1	−11.0	−9.0	−8.0	−9.7	−9.5	−8.0	−11.7	−11.9	−12.0	−12.5
Canada	+0.1	+0.1	+1.0	+1.9	−2.4	−1.7	−2.6	−3.1	−1.8	−2.5	−1.1	−5.3	−5.7	−5.1
Total of above countries	−0.8	−0.7	−0.1	−0.8	−4.3	−3.0	−2.2	−2.2	−1.7	−2.4	−2.5	−4.1	−4.1	−3.8
Australia	+2.4	+2.2	+0.6	+2.0	−1.8	−2.0	0	−2.2	−1.5	−1.0	0.0	+0.2	−4.3	−4.3
Austria	+1.5	+2.0	+1.3	+1.3	−2.5	−3.7	−2.4	−2.8	−2.4	−1.8	−1.5	−2.9	−3.9	−2.9
Belgium	−3.0	−4.0	−3.5	−2.6	−4.7	−5.4	−5.5	−6.0	−7.0	−9.0	−12.8	−11.7	−12.1	−11.3
Netherlands	−0.5	+0.0	+1.1	−0.1	−2.6	−2.2	−1.8	−3.1	−4.0	−4.1	−5.5	−7.4	−8.1	−8.3
Norway	+4.3	+4.5	+5.7	+4.7	+3.8	+3.1	+1.6	+0.6	+1.8	+5.7	+5.1	+4.7	+4.1	+0.5
Sweden	+5.2	+4.4	+4.1	+2.0	+2.8	+4.5	+1.7	−0.5	−3.0	−3.8	−5.3	−6.7	−6.8	—
Total of above countries	−0.5	−0.4	+0.1	−0.5	−3.9	−2.7	−2.2	−2.2	−1.8	−2.5	−2.7	−4.2	−4.3	—

Sources: OECD, *Economic Outlook* (Paris: OECD, December 1983), p. 33 and OECD "Public Sector Deficits: Problems and Policy Implications," *Occasional Studies* (Paris: OECD, June 1983), p. 15.

distribution among advanced capitalist countries, but rather by the similarities of highly inequitable distributions.

Perhaps the best comparative study demonstrating this result is Sawyer's "Income Distribution in OECD Countries" (1975) prepared for the OECD.[79] In the analysis of decile share distribution and measures of inequality for pre- and post-tax incomes, there are only very modest differences between countries. These differences take the form of slightly higher shares of income for the lowest earners and slightly lower shares for the highest earners. There is also evidence of some redistribution between pre- and post-tax incomes depending on the progressivity of the tax system and the specific transfer systems of individual "welfare states." This applies especially to Australia, Japan and Sweden, which tend to record, in that order, the lowest degree of inequality across the measures generally. The most extreme countries in the ranking, indicating greatest inequality, tend to be France and the United States. The remainder of the countries fall in between, with Germany usually demonstrating slightly higher inequality than average and Norway about average inequality. Evidence available for Austria shows a similar income distribution with a trend toward inequality.

Even given the similarity of income distribution among countries, the differences that do exist should be treated carefully. Therborn, et al. point to the problems in the classification of Sweden as having an egalitarian distribution without considering its historical evolution.[80] For instance, Sweden has always spent a large part of its public expenditures on social services and social security; it has followed international trends in pre-tax distribution, and a recent trend to greater equalization has come from the increasing employment of women. This record should not demean the greater equality created in Sweden through redistributions in the tax system, although it leaves untouched three-quarters of total pre-tax inequality. But it certainly levels the claims, along with cross-country studies, that tripartite political structures contribute to a lessening of income inequalities. Sawyer's recent update of his original study confirms this conclusion: "It would seem that government intervention in the process of earnings formation [e.g., incomes policies] has not generated substantial changes in the distribution of earnings."[81]

If tripartism implies the acceptance of certain fundamental differences in income distribution as between the major classes, it still may be argued that participation in tripartite structures by a "socially conscious" trade-union movement may lead to the lessening of earnings differentials within the working class to benefit its lowest-paid members. Nonetheless, the available evidence suggests that tripartite structures have not had a significant impact of lessening differentials within the labouring classes.[82] Evaluation of the empirical evidence finds mixed results in the reduction of differentials, but points up the particular

TABLE 2-25 Size Distribution of Post-Tax Income, Decile Shares

	Year	1	2	3	4	5	6	7	8	9	10
Australia	1966–67	2.1	4.5	6.2	7.3	8.3	9.5	10.9	12.5	15.1	23.7
Canada	1969	1.5	3.5	5.1	6.7	8.2	9.7	11.2	13.1	15.9	25.1
France	1970	1.4	2.9	4.2	5.6	7.4	8.9	9.7	13.0	16.5	30.4
Germany	1973	2.8	3.7	4.6	5.7	6.8	8.2	9.8	12.1	15.8	30.3
Italy	1969	1.7	3.4	4.7	5.8	7.0	9.2	9.8	11.9	15.6	30.9
Japan	1969	3.0	4.9	6.1	7.0	7.9	8.9	9.9	11.3	13.8	27.2
Netherlands	1967	2.6	3.9	5.2	6.4	7.6	8.8	10.3	12.4	15.2	27.7
Norway	1970	2.3	4.0	5.6	7.3	8.6	10.2	11.7	13.0	15.1	22.2
Spain	1973–74	2.1	3.9	5.3	6.5	7.8	9.1	10.6	12.5	15.6	26.7
Sweden	1972	2.2	4.4	5.9	7.2	8.5	10.0	11.5	13.3	15.7	21.3
United Kingdom	1973	2.5	3.8	5.5	7.1	8.5	9.9	11.1	12.8	15.2	23.5
United States	1972	1.5	3.0	4.5	6.2	7.8	9.5	11.3	13.4	16.3	26.6
Average	—	2.1	3.8	5.2	6.6	7.9	9.3	10.7	12.6	15.5	26.3
Dispersion	—	0.24	0.15	0.12	0.09	0.07	0.06	0.07	0.05	0.04	0.12

Source: OECD, "Income Distribution in OECD Countries," *Economic Outlook, Occasional Studies* (Paris, OECD, July 1976), p. 14.

TABLE 2-26 Measure of Inequality, Gini Coefficient

	Pre-tax Income	Post-tax Income
Australia	0.313	0.312
Canada	0.382	0.354
France	0.416	0.414
Germany	0.396	0.383
Italy	NIL	0.398
Japan	0.335	0.316
Netherlands	0.385	0.354
Norway	0.354	0.307
Spain	NIL	0.355
Sweden	0.346	0.302
United Kingdom	0.344	0.318
United States	0.404	0.381
Average	0.366	0.350

Source: OECD, "Income Distribution in OECD Countries," *Economic Outlook, Occasional Studies* (Paris: OECD, July, 1976), pp. 16–17.

TABLE 2-27 Income Distribution in Austria, Taxable Income Distribution in 1970, Households or Individuals; Decile Shares

Decile	Employees[a]		Self-employed[b]	
	Pre-tax	Post-tax	Pre-tax	Post-tax
1	1.8	1.9	1.4	1.9
2	3.6	3.9	2.5	3.3
3	5.9	6.2	3.3	4.3
4	7.3	7.7	4.1	5.2
5	8.5	8.8	4.9	6.0
6	9.8	10.1	5.8	7.0
7	11.0	11.3	7.2	8.4
8	12.7	12.8	9.8	10.9
9	15.0	14.9	14.3	14.8
10	24.4	22.4	46.7	38.2

Source: OECD, "Income Distribution in OECD Countries," *Economic Outlook Studies* (Paris: OECD, July 1976), p. 223.

Note: The only Austrian income-distribution data which could be found were based on income-tax data, covering employees and the self-employed separately. These were unsatisfactory because they classify individuals as the income unit for employees and the household as the income unit for the self-employed, and there is double counting between and within the two groups. Results are available for 1953, 1957, 1964, 1967 and 1970, and they show a certain trend toward inequality.

a. Individuals.

b. Households.

economically destabilizing results that the policy may bring, especially in the public sector, where wages are highly visible and easily controlled. The burden of these analyses advances the view that tripartite political structures and incomes policy have not been effective in compressing wage differentials. These elements have not been a significant factor in

TABLE 2-28 Summary Indicators of Industry Wage Structures

	Average Annual Increase in Wages — All Manufacturing Industries Percent		Coefficient of Variation of Industry Wage Levels			Stability (R^2s) of Industry Wage Structures[a]	
	1965–70	1970–75	1965	1970	1975	1970	1975
United States	5.2	7.6	19.3	17.8	22.0	0.99	0.96
Japan	15.4	20.6	24.3	25.4	26.8	0.96	0.97
Germany	7.7	10.2	12.0	13.5	14.3	0.98	0.93
France	9.7	14.9	15.5	16.1	13.8	0.97	0.77
United Kingdom	8.7	17.3	16.4	17.0	15.0	0.96	0.88
Canada	7.3	10.9	21.1	20.1	18.8	0.98	0.97
Italy	9.1	19.8	21.8	22.5	16.3	0.93	0.81
Austria	8.2	13.8	15.2	15.2	17.4	0.95	0.94
Belgium	8.3	16.7	15.1	16.3	17.2	0.95	0.97
Ireland	9.5	18.0	13.8	13.8	13.6	0.96	0.93
Netherlands	9.7	15.8	11.6	12.9	11.4	0.94	0.97
Norway	9.0	13.8	10.3	10.8	11.6	0.97	0.94
Sweden	8.7	12.0	10.8	10.0	9.7	0.97	0.89

Source: OECD, *Collective Bargaining and Government Policies* (Paris: OECD, 1979), p. 214.

a. Industry wage structures (in levels) for 1970 and 1975 have been regressed against those of 1965 and 1970 respectively.

redistributing income within the working class. In those countries in which the trade-union movement tried to enforce a solidarity wage policy, the occurrence of large amounts of drift negated these efforts and served seriously to weaken the central bargaining institutions. Thus, the historical experience of tripartite wage formation attests that any redistributional goals, though unachievable by collective bargaining, were also unachievable by means of incomes policy even when that policy was severely limited to lessening wage differentials. Moreover, as economic growth has slowed, even in countries where the trade-union movement has been most oriented to, and has held on to, an egalitarian wage policy in the crisis, the negotiations on these terms have been increasingly strained, as we have seen in the case of Sweden.

Insofar as tripartite political structures require consensus among the participants, there must be the acceptance of capitalist growth criteria, which mandate adequate profit levels to provide the surplus capital for investment in the processes of capital accumulation. This necessity places restrictions on the parameters of wage formation, limiting the extent to which distributional struggles may be altered in favour of labour without disrupting capital accumulation. To the extent that tripartite practices also represent some consensus concerning the stabilization of capitalism, there must be the acceptance of wages and income distribution that allows capital to reproduce itself (i.e., the macroeconomic considerations of tripartite wage policy). It is not surprising, then, to find that those countries which have developed extensive tripartite political structures do not differ much from other capitalist countries in terms of income distribution. Both groups have accepted the limits of capitalism. Insofar as they try to go beyond these limits, tripartite arrangements appear to break down.

Other Studies

The conclusions we have come to in this economic assessment of tripartism certainly run against the grain of much conventional wisdom. Yet a careful examination of the studies most commonly cited for their evidence that "corporatism matters" to better economic performance suggests that considerable caution should be exercised before their findings for the 1970s are extrapolated to policy pronouncements for the mid-1980s. Manfred Schmidt's findings of a positive relationship between corporatism and economic success, for instance, is put in a highly conditional form:

> The most successful economies were those which were economically powerful and economically highly productive before the world-wide recession began; and in which the dominance of the bourgeois tendency in the sphere of production was in harmony with the power distribution in the party system and in industrial arenas or in which powerful, but ideologically

moderate, trade unions, whose strength was institutionalized in a corporatist mode of conflict regulation, pursued moderate wage policies which were compatible with accumulation requirements on the part of capital.[83]

When we move beyond these exacting initial conditions to examine Schmidt's particular claim regarding the correlation between corporatism and low unemployment, we can immediately see that this finding is skewed by the inclusion of Japan and Switzerland, countries in which tripartism, as we have defined it, can hardly be said to be salient in light of the virtual exclusion of labour from top-level economic decision making. Moreover, in light of the fact that his findings are based on the limited experience of the 1970s, Schmidt himself is forced to conclude that the tripartite success appears to be coming to an end on the basis of the kind of data we have been examining here:

> Indeed, there is some evidence for the view that the low unemployment nations (Austria and Sweden might be taken as examples) have reached the upper limits of their successful political control of the economy, with unemployment in the early 1980s being on the whole on the increase.[84]

This can hardly be taken as a clarion call for tripartism.

David Cameron's important work, although only indirectly related to the effects of corporatist practices, is also often used to support the case that tripartism yields favourable economic performance.[85] It is quite possible to agree with Cameron that there is no simple relationship between the extent of public spending and poor macroeconomic performance, as fiscal conservatives have argued. There is no direct corollary, however, that if the monetarist case is weak, the corporatist case is strong. To be sure, Cameron does argue that "socialized collective bargaining" is based on the unions securing adequate compensation for wage restraint through a large and expanding welfare state which increases the social wage.[86] But Cameron has an acute sense of the limits of static correlational analysis, and he is aware that this strategy for purchasing economic stability must eventually catch up with governments in a capitalist economy:

> The growing tendency of increases in social spending and taxes to erode investment suggests that, while it is impossible to specify limits to the fiscal role of the state in any precise manner, continued expansion in public spending is likely to extract higher social and economic costs — in terms of unemployment, slow growth and inflation — because of diminished investment.

Indeed, Cameron goes on to say that many nations with significant increases in the public economy (notably those with tripartite structures) have suffered significant drops in the rate of capital formation and appear to have reached the "limits imposed by the fundamental requisites of a capitalist economy."[87] It is precisely this crisis in Sweden,

Cameron argues, that led to the Meidner plan. If Cameron's work appropriately rejects neo-conservative solutions, it should be noted, as well, that it also tempers simplistic advocacy of tripartism as a stable alternative.

The previous chapter of this study has shown that tripartism in Europe is in crisis as an integrative political mechanism and ideological practice. This chapter has suggested that tripartism is no less in crisis as a form of economic management. The immediate reason for this multiple crisis is that tripartite practices have failed to stave off the effects of the severe capitalist recession of recent years. Although certain countries with tripartite practices appeared to suffer less than many others, this type of relative cross-national comparison ignores the worsening situation within each country and the resulting tensions that beset each social formation. These tensions run deep because they are founded on the fact that tripartism was never really all that it was cracked up to be, as we have repeatedly seen, in terms of failing to live up to its blithe promise of partnership between capital and labour. It is only in light of the awareness of the crisis of European tripartism today, that we may finally turn in our conclusion to the lessons of the tripartite experience for Canada.

Conclusions

In 1976, during the course of Canada's last comprehensive statutory incomes policy, the Canadian Labour Congress (CLC) issued a manifesto that examined the pros and cons of tripartism from labour's perspective. The manifesto explicitly rejected "liberal corporatism" whereby "tripartism would mean that the institutions of organized labour would function to ensure the acquiescence of workers to decisions taken by new institutions in which their representatives have no real power." It advocated instead "social corporatism," a tripartite arrangement in which labour would have "an equal share in the economic and social decision making on a national basis with other partners — business and government".[88] With this statement the CLC was searching for a viable, voluntary, consensual alternative to statutory wage controls or to mass unemployment.

This search, as we have seen, has preoccupied the European labour movements as well. Their common rejection of statutory incomes policies cannot be dismissed as mere special pleading or passed over by lightly-made promises of equity. Their opposition to statutory controls pertains to the fundamental distinction that must be made in any civilized society between control over *things* (e.g., controls on the prices of commodities and the movement of capital) and control over the disposal of human labour (which even if bought and sold in a capitalist market society is hardly a mere commodity). And their opposition also pertains

to their very appreciation of liberal democracy. Trade unionists understand that free collective bargaining is just as essential to liberal democracy as freedom of speech or assembly, or the right to vote. For they understand that collective bargaining — and the ability to exercise the right to strike that alone makes it "free" — is the essence of that freedom of association of working people that, as we have seen, formed one of the bases for the evolution of liberal democracy itself.

Today, when statutory incomes policies are again being canvassed as an element in a Keynesian-type reflationary response to monetarism and mass unemployment, it is not surprising that tripartism should reappear on the political agenda. The hard look at the European tripartite experience that this study has attempted to undertake may help to clarify whether the inequities of tripartism as identified in the CLC's "liberal corporatism" are inevitable, or whether the equal partnership of tripartite social corporatism is possible.

It would certainly appear that claims that a tripartite social consensus can be built in conjunction with a statutory incomes policy, as in Britain in the mid-1960s, are not to be taken seriously. The CLC's understanding that if "we do not have the power to resist wage controls, then we will ultimately be co-opted into serving the government's intentions . . . liberal corporatism"[89] is a profound one. Insofar as the coercive powers of the state are used to resist the democratic rights of unions, which are, in the end, their sole basis of power in a capitalist society, trade unions are hardly in a position to achieve political balance with capital. Moreover, by making it legally impossible for union leaders to respond to their members' demands, statutory controls can hardly be the stuff out of which consensus — even among government, business and labour élites — can be fashioned. 'Coercion' and 'consensus' remain contradictory terms.

But what of tripartite economic policy institutions and practices that have been founded on voluntary wage restraint? Are they arrangements for maintaining the subordination of labour to capital and the state as the CLC feared with "liberal corporatism"? Or are they avenues to full equality in national decision making as the CLC hoped with "social corporatism"? Of necessity, the extent of the influence that trade unions have in tripartite economic policy-making arrangements will differ in various societies according to the balance of social forces within those societies. We have seen that the Swedish and Austrian trade-union leaders were, in a real sense, the main authors of tripartite practices, and that they exercised greater influence over national policy than did their German or British counterparts. This goes some way toward explaining the greater longevity and stability of the former as compared to the latter. It only stands to reason that a practice that belies partnership in economic policy making, even on the surface, and that involves the effective exclusion of issues other than wage restraint from the union represen-

tatives' purview, whatever the rhetoric used, will not for very long allow these representatives to justify wage restraint to their members and even to themselves.

But even if such distinctions need be made, they cannot be taken too far. Even if it can be seen that the greater influence of trade-union leaders in some countries can bring returns for wage restraint to their members, whether in the form of the social wage, price control or (in the most recent stage) employee protection and participation rights in relation to management, it nevertheless appears that the burden of tripartism rests on labour. This phenomenon arises out of the very historical logic of modern tripartism's development that we have traced, above all its concrete function of wage restraint. In this sense, this study confirms the conclusions of the most recent OECD survey of European tripartism: "The costs tend to be greater for the labour market parties than for governments, and seem to be relatively greater for unions than [for] employers' organizations."[90]

The reasons that what the CLC called "social corporatism," in the sense of full partnership, is impossible are not, on reflection, hard to discern. They are found in a statement made by Gerhard Lehmbruch, perhaps the foremost European authority on tripartite corporatism, about the West German and Austrian cases:

> In West Germany as well as in Austria, the trade unions have played an active role in the establishment of cooperative income policies, whereas employers and conservative political leaders in the beginning were much more reluctant. Union leadership expected that institutions such as the Paritatische Kommission and the Konzertierte Aktion might serve as a strategic point of departure for arriving at a larger participation of organized labour in the formulation of overall economic policy. Such hopes have not materialized in an appreciable manner, at least in the West German and Austrian cases. Enlarging the field of corporatist economic decision-making beyond income policies (or, more exactly, control of wage policies) would have meant, among others, control of profits and of investments and, hence, a considerable structural transformation. This would have necessitated a shift in power relations which certainly could not be obtained within a corporatist system. Liberal corporatism operates by processes of accommodation of interests and consequently is characterized by high thresholds of consensus.
>
> On the contrary, incomes policies — as the core domain of corporatist policy-making — have largely served the function of integrating organized labor into the economic status quo.[91]

In other words, precisely because the classes in a capitalist society occupy positions of structural inequality, one cannot really speak properly of "partnership." Capital's very place as a class in society rests on its exclusive control over private investment. The state may attempt to steer investment this way and that, and the unions may secure

redistributive *quid pro quo*'s (where economic conditions allow and the political balance of forces is propitious), but attempts to share control over investment represents a structural challenge to capital, which will, of course, break the consensus requirement of tripartism. In general, and particularly during the second phase of postwar tripartism, European labour movements operated within the limits of this logic. When their greater burden within the arrangements led to breakdown in the late 1960s, they upped the ante. For this reason, and despite significant union efforts at wage restraint, it was not only rank-and-file workers, but also capital, that began to grow 'tetchy' within tripartite arrangements. In any case, capital's main interest in tripartism initially rested, it must be remembered, on securing voluntary wage restraint under conditions of full employment. It is increasingly clear that in an economic and political environment that neither sustains nor demands full employment, tripartism has much less attraction for business.

Pierre Trudeau wrote the following words concerning the "failed corporatism" of Quebec's Union National governments (which paralleled the "failed corporatisms" of inter-war Europe): "Objective political economy and sociology have certainly not yet shown how a legal superstructure, which makes no essential changes in capitalist institutions, could reconcile the opposed interests of capital and labour, except in limited areas and for limited periods of time."[92] Such a reconciliation was indeed only possible in the postwar era (with recurrent instability, in any case) insofar as full employment prevailed. Now the old question raised at the outset of the period by Beveridge, of whether private enterprise and full employment are compatible, has again come to the fore, and there appears to be no easy way in which tripartite corporatism can cover it up. While the politically strong social democratic labour movements of Sweden or Austria admirably contained unemployment through policies of labour hoarding, public employment or relief work, this solution has not been the product of an operative consensus, but has exacerbated dissent as capital has responded to the effects of such policies on productivity, or on their inability to reduce labour costs and increase profitability, or on the stability of currency in the face of fiscal deficits. And with a structural transformation not on the agenda for these labour movements, their social democratic governments have also tried to cut their cloth somewhat to meet capital's requirements for international competitiveness. It will be said, and rightly, that their performance is still better than the mass unemployment and assault on democratic rights (social rights and trade-union rights) that is visible in other countries in the crisis; however, the point is that the instability and contradictions of the old social democratic tripartite option are accelerating: it is not a static and stable option.

Usually discussions of European tripartism's relevance for Canada end by addressing the question of how Canada's specific conditions are

different. The absence of centralized employers and labour confederations and the federal nature of the state usually bulk large here, and little attention is paid to the question of democracy as our lack of appropriate centralization is lamented. In any case, if this study teaches anything, its lesson is that the major missing "condition" is a social democratic party as at least one of the alternating parties of government at the national level with the attendant class subculture and identity that has traditionally formed the backbone of such parties and helped to maintain the stability of their tripartite practice, such as it may be. Yet to leave the question at Canada's "missing conditions" is really to miss the point itself. For if the question of our time is once again the fundamental issue of whether full employment and capitalism are compatible, and if it is clear that equality between the classes is not really possible, even in the best of times, within tripartism, then to continue to search for social partnership will not only be misleading, but will close off the possibility of broadening the political agenda to raise radical new avenues for advancing Canadian democracy and economic prospects. Insofar as discussions of consensus, if that state is to be stable, must be limited to what the parties will agree to at an early stage of the talks, they close off the possibility, especially for labour leaders, of trying to conceive, elaborate and mobilize support for fundamental economic and social change. The CLC's demands for structural reforms (often based on European examples of price controls or of nationalized banks that will channel and control investment, as in Austria) will only come to be seen as practical in Canada with massive mobilization of public support of a kind that has not yet been effected and that cannot be effected behind the closed doors of tripartite meetings.

The main barrier to such support is not only the enormously powerful vested interests of, for instance, the private banks; the same barrier exists, in any case, to any significant labour influence within tripartism. It is also the fear of Canadian people generally that fundamental social and economic change means bureaucratic state control, which might efface even the limited democracy they enjoy. The task before any serious inquiry into Canada's political and economic prospects is, therefore, to examine seriously the possibilities and social and institutional requirements of a form of democratic socialism. The prospect that this option could advance and enhance democracy in the state, as well as in the economy, by ridding our society of class power, privilege and inequality, and the determination of its economic well being by the logic of profit maximization in a competitive global capital market are not an options that any sincere and serious democrat will want to leave out *a priori*.[93] The fact that such a prospect is not today "practical" is no more an argument against it than were arguments of the "impracticality" of liberal democracy not much more than a century ago. Nor should it be though that the clear articulation of such a democratic socialist pos-

sibility and the mobilization of some support behind it might not hasten lesser reforms which, when advanced in the absence of such a broader thrust, would be dismissed out of hand.

It would indeed be a compelling proof of the quality of Canada's democracy if an august state inquiry were to take such an option seriously, rather than to restrict itself to the cramped options afforded by the various versions of Keynesianism and monetarism. In democratic terms, the latter theory seems to insist on the conditionality, rather than fundamental nature, of rights pertaining to workers' freedom of association, social welfare and gainful employment. The former proclaims such fundamental rights, but increasingly appears unable to meet them, and its efforts to do so in the form of statutory wage controls or centralized tripartite élite negotiations hardly enhance democratic practice. But even if it is too much to hope that the logic of full employment and democracy will prevail, in this instance, over the logic of capitalism, it may still be hoped that this report may serve as a warning, if nothing else, against taking too seriously the shallow rhetoric of "consensus" and "participation," not to speak of "market freedom." The Canadian people deserve better, and they are likely to demand it before long.

Notes

This study has taken on larger dimensions than were originally intended when it was first conceived. In part, this was because I found it impossible to portray adequately the contemporary tripartite experience in Western Europe without providing the reader with the historical perspective on tripartism, in general, and specific countries, in particular, that is so often lacking in reports of this kind. At the same time, I found that events have been moving so swiftly that it was also necessary to try to keep the reader abreast of the most relevant recent developments. (In this respect, I wish to acknowledge the help of the Swedish Embassy in Ottawa, as well as thank the Royal Commission for funding some additional travel in Austria and Germany while I was in Europe in February 1984.) But another reason for the larger dimension of this study lies in the fact that the two graduate students whom I engaged as research assistants undertook their task with such commitment and flourish that they produced an amount of high-quality and original research far beyond what could conceivably have been expected of them. By their very nature, Axel Dorscht's detailed surveys of tripartite arrangements in selected European countries could not lend themselves to direct incorporation in this report, but the contribution of this material to the writing of the case studies in the text on tripartite practice is hereby acknowledged. Greg Albo's comparative assessment of tripartism's economic record stood so much on its own as a piece of work that I decided to incorporate a revised and abridged version of it in this report. Needless to say, I still must take entire responsibility, although by no means all the credit, for this study as a whole and for its conclusions.

This study was completed in January, 1985.

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72. Flanagan et al., *Unionism*, p. 82. Emphasis added.
73. G. Lehmbruch, "Introduction: Neo-Corporatism in Comparative Perspective," in *Patterns of Corporatist Policy-Making*, edited by G. Lehmbruch and P. Schmitter (London: Sage, 1982), p. 12.

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3

Linguistic Diversity and Economic Decision Making: *Three European Case Studies*

K.D. McRae

Introductory Considerations

The aim of this paper is to examine the arrangements for economic consultation and decision making in a few selected Western societies that are prominently characterized by linguistic or cultural divisions. The main reason for attempting this examination is to investigate whether the presence of linguistic and cultural diversity in a Western parliamentary system imposes significant constraints on the formation of economic policy. In this sense the three systems examined in this essay, Switzerland, Belgium and Finland, may be compared in turn with similar political systems that are *not* characterized by linguistic diversity, such as Sweden, the Netherlands, Austria or West Germany.

The three countries selected are all characterized by parliamentary multiparty systems based on proportional representation, by highly developed economies, and by high standards of living. Among linguistically divided societies, they constitute, with Canada, practically the whole universe of such countries. Because contemporary Finland is a somewhat marginal case of minority interest representation, the major focus in this essay is on Switzerland and Belgium. These two countries, again with Canada, are also federal or quasi-federal, with a regional dimension that does not coincide exactly with linguistic-cultural boundaries.

One may set up a few guideposts at the start to highlight the areas of concern. A strong case can be made that an essay of this type should analyze the questions primarily from the standpoint of the minority group or groups within each system. In the Swiss context this would mean focussing especially on French or Italian Switzerland. In Belgium,

since Flemings and Walloons are more closely balanced, and both groups show sensitive minority complexes for a combination of structural and psychological reasons, one may properly examine *both* communities and all three Belgian economic regions. In Finland, the Swedish-speaking minority is relatively small and dispersed, but also relatively well off in economic and occupational status.

More explicitly, one may pursue this emphasis on minorities in relation to four specific questions:

- the degree of minority representation in consultative and decision-making arenas, with respect to both public-sector and private-sector participants in these arenas;
- the extent and effectiveness of minority inputs into these processes (theoretically, these inputs may take two forms, according to whether the minority group shares in decisions in some central arena, or enjoys some degree of decisional autonomy in a separate arena, as, for example, in a federal system;)
- the relative economic rewards actually realized by the minority as compared to those of the majority, according to various indicators; and
- the minority's subjective perceptions of the fairness of the economic system, including both its processes and its actual outcomes.

It is scarcely practicable to describe or assess the entire economic systems of these societies in a brief essay, but some minimal indication of the economical and social context seems essential. For all three countries, the paper focusses first on industrial relations, collective bargaining processes, and the role of government in these processes. At a secondary level, it gives a general indication of the degree of government intervention in overall economic development, regional development, and the formation of industrial strategy.[1]

This paper has specific and limited objectives. The basic intention is not to evaluate these economic systems as a whole, to compare them one against the other, or to compare them with the systems of more culturally homogeneous societies. The primary purpose is to see how far the various cultural groups which are components of these societies participate effectively and identifiably in various key economic decisions, and how far they are satisfied with the processes and outcomes of these decisions.

Switzerland

Switzerland is characterized by a historical tradition of loosely associated cantons, formidable geographical barriers, a rather decentralized federal system, a historically important religious division (Protestant–Roman Catholic), fourfold linguistic pluralism (German, French,

Italian, Romansh), and extensive crosscutting of the linguistic and religious cleavages. Its use of the popular referendum and the constitutional initiative at both federal and cantonal levels means that the political process is not wholly within the power of the political élites. Its economic system is founded on a basic constitutional guarantee of freedom of commerce (Article 31), which in the twentieth century has been subject to various formal modifications and informal infringements, most notably during the two world wars, the economic crisis of the 1930s, and more formally with the so-called "economic articles" of 1947, which gave the federal authorities power to act "with the cantons and the private sector" to take steps to counter economic crises and unemployment.

A further characteristic of the Swiss political system is a very dense network of associations of every type, including economic interest groups; these associations in most cases reflect the same federalized, decentralized structures as the rest of the Swiss political system. The processes of consultation on federal legislative projects are highly developed and extend to both economic interest groups and cantonal governments. It is also relevant that the Socialist Party has participated in the government continuously since 1943, and as an "equal" partner (i.e., supplying two representatives out of seven, the same proportion as the Radicals and Catholics) since 1959. Without this participation of the labour movement in government, it is difficult to imagine the present level of development of economic consultation.

The system of industrial relations prior to World War II was considerably troubled. The end of World War I coincided with a paralyzing general strike that many Swiss saw as a potential, but failed, revolutionary putsch. The economic crisis of the 1930s hit Switzerland and its export industries especially hard, producing unemployment in the range of 100,000 or more for several years. Industrial distress led to ugly demonstrations in several cities and to the rise of a number of antidemocratic and antiparliamentary political movements. In this turbulent setting, in 1937, was born the first agreement on labour peace, which changed the climate of labour-management relations and established a lasting precedent for collective bargaining in the postwar period. The tradition so established was one of bilateral negotiation, with provision for third-party arbitration where conflicts cannot be resolved directly, but with no governmental involvement in the bargaining process. From 1941 onward, the federal authorities added an important supplement to this system by enabling collective agreements to be made binding on all the employers and workers in the same industry or sector, even if these persons are non-members of the associations that negotiated the original agreement.

In recent years there have been large numbers of collective labour agreements, amounting to an estimated 1,400 in 1973. The content of

these agreements is left entirely to the parties concerned as long as the provisions remain within guidelines set down in national legislation (e.g., respecting maximum hours of work). These agreements vary widely in their territory of operation and in the industrial or professional sector they cover. It is estimated that roughly one-third of the work force is organized, but this proportion varies from about 10 percent to more than 50 percent according to the industry concerned. The procedure for a declaration of extension of a collective agreement to a whole industry or sector is currently regulated by federal legislation enacted in 1956. In general the extension must be requested by all parties to the agreement, who in turn should represent more than half of the industry affected. In practice, formal declarations of extension are relatively rarely utilized, because many collective agreements are accepted across the industry in question without a formal governmental declaration of extension. In 1979, there were only 10 operating federal declarations and a further 12 were in operation on the authority of the cantons, covering a total of 4,400 employers and 270,000 workers.[2]

On the basis of the above data, one may summarize the industrial relations question from the perspective of the religious and linguistic minorities. Collective bargaining in Switzerland is regulated by federal law, but with provisions for cantonal variations in procedure and for the regulation of conflicts. It takes place in many arenas, large and small, federal and cantonal, according to the industry or branch concerned. The public authorities take no part whatever in the negotiations, leaving basic questions such as wage policy and hours of work to the negotiating parties.[3] From the standpoint of religious minorities, Catholic and socialist unions (and others not affiliated with either federation) negotiate side by side, signing parallel or identical agreements for their members. Linguistic minorities lack a similar degree of union autonomy, but find partial autonomy in the cantonal organizational base of some unions and employers' associations, as well as in the cantonal arenas of negotiation in some trades. As one informant noted, the Swiss labour scene is mainly cantonal in orientation. Employers think in cantonal terms, though in some sectors trade-union awareness is in terms of French Switzerland (Romandie) as a whole. Another well-placed observer considered that those in the French cantons were quite satisfied with this flexible system. There seems to be little available evidence for Italian Switzerland — effectively the canton of Ticino — but there the workforce is rather concentrated in smaller enterprises and in the services sector. The main point is that the federal government, by its rigorous non-participation in the collective bargaining process in general and in wage settlements in particular, keeps a low profile and presents no target for the politicization of wage issues. In general it has been content to leave wage levels to be determined through the negotiation process between the social partners in the private sector, which have acted

responsibly and remained sensitive to the heavy dependence of Switzerland on export industries.

Although the public sector relies heavily on the private sector for collective bargaining and especially for setting wage rates, the role of the federal government is, of course, visible and even prominent in certain other aspects of the economy. Like other modern democracies, Switzerland has become a comprehensive welfare state since World War II, and this apparatus rests on a number of federal laws that need not be described here. It is typical of the Swiss political system, however, that some of this legislation is left to the cantons to execute and administer, while some of it operates by defining the conditions under which private social insurance funds may qualify for federal subsidy. One source estimated that there were a total of almost 7,000 social insurance funds in the country, covering insurance for illness, old age and dependents, family allowances, unemployment, and pension funds (Tschäni, 1972, p. 352). Since the social insurance function is widely accepted in Switzerland, as in all advanced societies, the special feature of the Swiss system is the low profile of the federal authorities in its administration. The language regions differ very little on social security issues, but more serious divisions exist between political parties of the left and right, and these divisions extend to all linguistic regions.

A second area of federal intervention, and a more interesting one, is the question of regional development. In Switzerland this question has focussed on the growing disparity between the increasingly prosperous industries of the Plateau area north of the Alps and the stagnant or declining mountain regions of the Alps and the Jura. Since the early 1970s the Confederation has had a policy of reinforcing decentralized federalism by aiding the geographically disadvantaged mountain regions. The major item of current policy, however, is one of making aid available to the private sector on favourable terms, though another federal law provides financing to improve the infrastructure of these regions, which account for one-quarter of the country's total population and two-thirds of its surface area. Once again, the federal authorities maintain a low profile, and each of the language regions has its disadvantaged mountain areas. In more recent years there has been a tendency to adapt and extend this regional policy to certain areas hard hit by the recession of the 1970s, such as the canton of Neuchâtel, where the crisis of the watchmaking industry was a major factor in a sharp decline of average per capita income from 102 to 84 percent of the overall Swiss average between 1965 and 1978.[4]

If the mountain areas present special problems, the federal authorities are also empowered by the economic articles of the Constitution to intervene to protect sectors or industries that are in difficulty. While pressures to intervene in individual industry sectors have generally been resisted successfully, the case of agriculture is rather different. The

notion of a vigorous and prosperous peasantry is dear to the Swiss self-image, and self-sufficiency in food production (or as close an approximation to it as possible) is a major consideration in defence planning and in a foreign policy of armed neutrality. For these reasons agricultural protection in the form of direct subsidies and customs duties on imports has been a longstanding feature of Swiss economic policy. In the 1970s the proportion of federal expenditures devoted to agriculture and food production was approximately 10 percent (9 percent in 1980, down from 13 percent in 1960) (Piot, 1982, p. 245). Once again, one can discern little or no tension among linguistic regions arising from agricultural policy; the main cleavage is between industrial and rural cantons and districts.

This pattern of linguistic harmony also characterizes other important federal interventions, such as those concerning the size and quality of the labour force. Because a substantial part of the Swiss work force is of foreign citizenship, the size of the labour force can be regulated. This situation is not new: in 1910 the non-Swiss component reached 15 percent of the population and 17 percent of the economically active population. In the period after 1945, rapid industrial expansion brought an acute shortage of Swiss workers, and the foreign population doubled from 495,000 in 1960 to just over a million in the peak period from 1972–1975. Of this latter number about 600,000 were in the work force on the basis either of annual authorizations or of permanent establishment, and to this figure one may add roughly 200,000 seasonal workers and 100,000 border commuters (*frontaliers*), for a total non-citizen work force of almost 900,000 persons.

Until the 1970s the influx of foreign workers was monitored and regulated, but not deliberately restricted for policy reasons. Between 1965 and 1974, however, the government faced no fewer than five popular initiatives directed against *Ueberfremdung* or "overforeignization" (OFIAMT, 1980, vol. 1, pp. 82–83). The first Schwarzenbach initiative — so called because of its sponsorship by the right-wing nationalist movement led by the Zurich parliamentarian James Schwarzenbach — came uncomfortably close to being passed in 1969, in spite of strong opposition to it by the federal authorities and by many organized groups. It even obtained majority support in six German-speaking cantons of central Switzerland and in bilingual Fribourg. Thus, even before the recession of 1973, there was a political climate that favoured restricting unchecked employment growth and economic expansion. When the economy softened, it was relatively easy for the authorities to take up most of the slack by nonrenewal of annual permits so that the total resident foreign labour force (on annual permits plus those established) fell by more than 100,000 persons, between 1974 and 1977, to just under 500,000.[5]

The federal authorities (specifically, the Office fédéral de l'industrie, des arts et métiers et du travail, or OFIAMT/BIGA) also watch over the qualifications of the Swiss labour force. By comparison with other

Western societies, a relatively small percentage of the population undertakes formal post-secondary education, and for those entering the industrial work force there is a highly developed system of apprenticeships in industry. For the economically active population aged 15 to 24 it has been estimated that in the 1970s roughly 51 to 53 percent had completed apprenticeships in the work world, a further 28 to 30 percent were undergoing apprenticeships, between 1 and 2 percent held post-secondary diplomas, while 17 to 19 percent worked in unskilled or unspecified occupations. The system of apprenticeships is defended as providing professional training closely matching the requirements of the Swiss economy, and it has had the effect of reducing youth unemployment in Switzerland to insignificant proportions (less than 1 percent of the corresponding work force) even at the height of the 1973–75 recession. The main responsibility for professional training under apprenticeship programs rests on the private sector, and the federal role is primarily in subsidizing costs, promoting larger numbers of apprenticeship contracts, offering certain retraining and upgrading programs (especially for those without apprenticeships), and subsidizing certain small programs of temporary work (OFIAMT, 1980, vol. 1, pp. 163–72). Here, as well, there is no significant evidence of friction among language groups.

The great majority of economic issues in Switzerland are regulated in a climate of linguistic harmony, but it should not be concluded that the Swiss economy is totally free from ethno-linguistic cleavages and tensions. The one substantial economic sector that has faced chronic difficulties throughout the 1970s has been the watchmaking industry, which is concentrated in the cantons of Neuchâtel, Jura, the South Jura districts of Bern, all of them francophone districts, and a few adjacent German-speaking areas. Many of the localities concerned are heavily oriented toward this single industry. As Lambelet notes,[6] such a structural concentration gave rise to strong political pressures on the federal authorities, in the late 1970s, to relax the National Bank's monetarist policy in order to bring down the franc and so enable the watchmaking industry to respond more effectively to its foreign competitors. These pressures were successfully resisted, and in the end it was the banking industry that came to the rescue of the watchmaking industry with large-scale private loans. It is also important from a linguistic-cultural standpoint that the French-Swiss cantons did not unite as a bloc to press the claims of the watch industry, presumably because not all cantons were equally affected, and because concerted action in economic matters by linguistic blocs is rare in Swiss politics.

A second area of concern, which is discussed significantly in the press of both major language groups, is the increasing concentration of Swiss industrial and financial strength within the so-called "Golden Triangle" bounded by Zurich, Basel, and Bern (or Olten in some versions). In one sense the triangle image is another version of the cleavage between the

Plateau and the mountain areas, but the triangle represents a section of the Plateau that omits its eastern and western extremes, the latter extending into francophone Switzerland. While prosperous industries are spread across the triangle, the financial sector and the advertising industry are becoming more and more concentrated in the Zurich area,[7] to the perceived detriment of other regions. Many articles in the Swiss press, and perhaps more notably in the Swiss francophone press, have emphasized the dangers of this economic development, with its implied consequences, in terms of population movements, for the balance of forces within Swiss federalism.

Along with the question of location of industrial and financial enterprises goes a third question of adequate minority representation in their management. From 1979 data it can be concluded that while the boards of directors of the largest Swiss undertakings were reasonably representative when taken as an aggregate, the French and Italian Swiss were seriously underrepresented at the level of president or managing director or executives of equivalent level.[8] On the other side of this argument, it is often contended that the opportunity structure in the upper levels of the Swiss economic élite is relatively open, and that members of the linguistic minorities who are prepared to meet German-Swiss norms of hard work and long hours have full access to these positions. The extra price to be paid, however, may include relocation to German Switzerland and sufficient fluency in the majority language, including at least a passive knowledge of German-Swiss dialects.

A fourth area of concern, less widely discussed, but identified as early as the mid-1960s by Jean Meynaud, concerns the legislative process. Meynaud examined the representation of the smaller linguistic communities in the parliamentary committee system and found it reasonably proportional and satisfactory. But he also noted a trend for legislative projects to be entrusted to non-parliamentary committees of experts or to mixed committees, and he found that in these settings the role of the minorities was less salient and their representation was less regularized than in parliamentary committees (Meynaud, 1968, pp. 174–78). While more recent empirical studies on this point have not been found, there is a general impression that the legislative process is increasingly dependent on private-sector representations and on technical expertise outside parliament, and that at these levels there is less sensitivity to minority concerns and less automatic minority representation than in the Federal Assembly. One consequence is that legislative projects increasingly tend to arrive in parliament as delicately negotiated compromises among the interest groups directly concerned, balanced so finely that legislators hesitate to modify the results. On the other hand, the practical exclusion of federal parliamentarians from the adjustment process is at least partially counterbalanced by the fact that the consultation process does include the cantonal governments, whose input into

the legislative process is important because many federal legislative acts are applied and administered by the cantons.

The consultation procedure, although not institutionalized in detail, has become an integral part of the Swiss legislative process in recent decades, and to bypass or eliminate it would be considered unthinkable. Its forms vary from one project to another, and modifications in procedure can occur in response to public criticism. For any significant project, the cantons and relevant interest groups will be consulted. Cantonal representatives are typically to be found alongside interest-group representatives on committees of technical experts. Inputs are invited by written submissions, which require both cantons and interest groups to take a stand and to devote some effort to preliminary study, but alternative methods allow oral hearings or a conference of interested parties. The effectiveness of cantonal participation is variable, depending on the degree to which the canton is affected and its capacity to generate independent expertise on the subject. While most accounts stress the undeniably preponderant influence of the economic interest groups in the consultative process, the federal authorities also value cantonal participation on the practical ground that it produces legislation that is more acceptable to the cantonal authorities and more willingly executed by them.

There is a second avenue of federal-cantonal consultation in the conferences of directors of cantonal departments (finance, justice, education, public works, and so on). While originally established primarily for horizontal consultation, these conferences have been increasingly utilized by the federal authorities as a sounding board and channel of discussion for vertical communication. Decisions from these conferences have advisory status only. Some Swiss opinion expresses doubts about any further institutionalization of this channel, on the grounds that these conferences are composed of politicians rather than technical experts, that large cantons have undue weight, and that formal institutionalization would undercut the role of the federal second chamber, the Council of States.[9]

If we now summarize and assess the Swiss economic system from the standpoint of the concerns of this paper, the following five points seem relevant. First, the labour market has been orderly since the late 1930s; time lost through strikes and lockouts has been minimal. Secondly, wage levels have been left to bilateral negotiation, with the state playing a role only when conciliation becomes necessary. No governmental "wage policy" is visible. Thirdly, unemployment in the period since 1945 has been minimal, thanks partly to rapid growth of the economy prior to 1973. With due allowance for this special factor, Switzerland is a standing refutation of the argument that a free-market economy requires unemployment in order to function properly. Fourthly, the Swiss policy of general adherence to the free-market economy has not precluded limited

state intervention in specific domains for specific objectives (e.g., agricultural protection and aid to the mountain regions). Fifthly, official circles are cool to, or openly critical of, the concept of a broad industrial strategy, believing that free-market mechanisms are more efficient. In this respect it is difficult to conceive of any large-scale strategy that would be both efficient in economic terms and either non-discriminatory or favourable to the linguistic minority regions.

With respect to the questions of minority representation, inputs and satisfactions that were outlined at the beginning, we may also conclude that minority representation, while proportional to numbers in the political arena, is less than proportional in the upper echelons of the industrial and financial sectors. Minority inputs into policy decisions in these sectors, a more difficult question to assess, have given cause for much concern and discussion in the press. On the other hand, it can be argued convincingly that the political system remains highly receptive to minority concerns, thanks to proportional representation in elections, a permanent "all-party" executive, easy availability of direct democracy (initiative and referendum), and a political culture that stresses and values minority rights. Further, the concerns of the minorities are aided by federalism. In particular, the application of many federal laws is carried out by cantonal administrations according to cantonal norms and priorities.

Insofar as the economic rewards of the system are concerned, there is considerable evidence to show that average incomes in French Switzerland have been close to those of German Switzerland since the 1950s, in spite of wide intercantonal variations *within* French Switzerland and *within* German Switzerland. Incomes in the Italian-speaking and Romansh-speaking areas of southern Switzerland have lagged below these averages, but there has been some tendency for the gap to diminish. A closer analysis of expenditures shows some tendency for consumption to be somewhat higher in French Switzerland and for savings to be higher in German Switzerland, with the result that the increasing volume of German-Swiss capital investment in French Switzerland has become a cause of concern in francophone circles.[10]

Perhaps the most difficult question is to compare minority and majority *perceptions* of the fairness of the economic system to the respective linguistic regions. Evidence on this question is at best indirect or oblique, pertaining mainly to the political system as a whole or to Swiss identity, rather than to Swiss economic institutions or outcomes in any narrow sense. The level of satisfaction with the Swiss political system as a whole is manifestly high, and oddly enough, the Italian Swiss emerge from one major survey of 1972 as the most patriotic and most contented of the three larger cultural groups.[11] The same survey shows some visible scepticism and even alienation with respect to government among French-Swiss respondents, but this cannot be linked in any direct

way to dissatisfaction with the economic system. It is true that French-Swiss business and intellectual circles have reacted with some concern to what they see as a growing imbalance between the "Golden Triangle" and the francophone periphery, but this concern focusses more on differing economic potential in the future than on perceptions of present distributional inequality. It is possible that these structural conditions do presage future difficulties and problems, but it is also possible that the fears are exaggerated or premature, illustrating once again the point that those who live in countries with few major problems seem prone to worry just as much over lesser ones.

Belgium

Belgium has been marked by a language boundary that crosses the country in an east-west direction just south of Brussels, separating the Flemish provinces of the north from the Francophone south. The capital, Brussels, was historically Flemish, but tendencies toward *francisation* were visible by the eighteenth century and greatly reinforced by the population growth that followed Belgian independence.

The Belgian revolution of 1830 was primarily the achievement of a triumphant francophone bourgeoisie, against a predominantly Holland-oriented, Orangist Protestant regime, though the revolution also had backing from a more traditionalist Roman Catholic segment alienated by governmental intervention in the educational system. This bourgeoisie had already developed one of the foremost coal-and-steel-based industrial concentrations in Europe, concentrated in the Sambre-Meuse crescent of the francophone provinces. While the French-speaking provinces of Liège and Hainaut were therefore substantially industrialized and prosperous, the Flemish provinces north of the language boundary were more traditionalist and agricultural. The Belgian Constitution of 1831 was one of the most liberal in the Europe of its day, stressing the classic freedoms of the individual, rights of private property, and also linguistic liberty.

Against this domination by a francophone bourgeoisie — which predominated politically under a restrictive property franchise even in the Flemish provinces — there developed gradually a broad Flemish reaction. The Flemish Movement underwent three distinguishable phases, first as a movement of literary nationalism in the 1840s, then as a political campaign for recognition of the right to use Dutch in public institutions in Flanders, and finally, from about 1900, as a quest for the social and economic rights of Flemish workers. In pursuit of these goals, there have been three successive waves of language legislation. The first, in the later decades of the nineteenth century, sought equal rights for Dutch in the courts, administration, and secondary schools of the Flemish provinces. The second, in the 1930s, sought to make these provinces officially

unilingual, while a third wave in the 1960s brought more stringent legislation attacking widespread non-compliance with the legislation of the 1930s. This language legislation made deep inroads into the linguistic freedom established constitutionally in 1831 and led to public-sector language usage organized primarily on the principle of territory rather than of personality in both Flanders and Wallonie. This principle was violently opposed by francophones, who continued to call for linguistic liberty, but it received strong backing from the Flemish population, whose political weight became predominant with franchise reforms of 1919. This prolonged language conflict and its direct linkage to territory led to the sharp politicization of every political or economic issue having a significant regional dimension.

Language regulation alone was unable to overcome intergroup conflict and the alienation felt by Flemings toward the centralized Belgian state. In the 1960s a succession of governments took up the growing demands of Flemish cultural nationalists and Walloon economic regionalists for a more decentralized form of state. The process of reform proved long and difficult. A first round of amendments to the Constitution was completed in 1970, and the implementation of these changes in the cultural sphere was largely accomplished during the next few years. Decentralization in economic matters proved more difficult, and after a number of false starts legislation to establish two decentralized jurisdictions over a range of economic matters in Flanders and in Wallonie was embodied in two statutes of August 1980. The problem of Brussels was deliberately set aside as too controversial at this point, and implementation of the 1980 laws has been slowed by the difficult economic and fiscal environment that has prevailed since their passage.

The result has been that present cultural and regional institutions are widely regarded as temporary or transitional. There is agreement that further changes are needed and are bound to occur, but there is manifest disagreement as to whether the prescription for present difficulties is further decentralization (toward a full-fledged federal system of either two or three regions), or a partial return to unitarism, or some as yet untried option (such as a federation of provinces, which have never in any case been very prominent in the Belgian political system). There existed, in 1984, all-but-universal consensus that the present formula for decentralization was not working well, which was hardly surprising given the fact that some of its key components were not yet operative.[12] This ongoing institutional reform and the fluidity of Belgian political institutions help to explain why interviews on various aspects of economic decision making, in May 1984, encountered a high level of discontent with current arrangements. But these discontents surfaced in somewhat irregular and unexpected ways, and there were also some areas of satisfaction with the older, centralized system.

Present institutional arrangements reflect the transitional quality of the new system. Questions under central legislative competence remain with the bicameral Parliament, elected according to proportional representation. Matters of a cultural or "personalizable" (*personnalisable*) nature belong to the Community Councils (French, Dutch or German[13]), while those allocated to the economic regions are handled by regional councils for Wallonie and for Flanders. But the system is both incomplete and asymmetrical. It is incomplete because Brussels-Capital, although a region, has no corresponding regional council for legislation, and the executive for Brussels regional affairs is a committee of the central cabinet. It is asymmetrical because while francophone Belgium has both a French Community Council and a Regional Council for Wallonie, each with its own executive, Flemish Belgium *combines* the two levels in a single Flemish Council (Vlaamse Raad) under a single executive. Further, the legislators for both the cultural communities and the two regional councils in the current transitional phase are the elected members of the central Parliament, sitting separately as a group for their own linguistic community or region as the case may be.

After the rise of mass political parties in the 1890s, the classic political cleavages of religion and class in Belgian politics produced a basic tripartite division of political parties (Catholics, Socialists, Liberals). Each of these, but especially the first two, developed a dense, interlocking network of associations of the same ideological tendency during the early twentieth century, and these segmented associations persist strongly today, even though the ideological battles that generated them have largely subsided. The linguistic cleavage crosscuts these ideological divisions, though unevenly. The Catholic party predominates in Flanders, the Socialists in Wallonie. Two decades of acute linguistic strife in the 1960s and 1970s gave rise to significant regional parties in all three regions, and these parties in turn brought intense pressures on the three traditional parties to respond to regional demands. Under these pressures each of the three traditional parties split, first into separate linguistic wings, later into two independent parties serving different linguistic clienteles. If two of the three newer regional parties are now in visible decline, it is because their work of highlighting the linguistic-regional cleavage is complete, and Belgium has no significant political party bridging the two major language communities.[14]

These linguistic and ideological cleavages carry over into Belgian labour relations. The organizational structure of this sector is rather complex, consisting of a double hierarchy of bodies having social concerns and economic concerns respectively at three levels: the country as a whole, specific industries, and individual plants or enterprises. Both hierarchies have been institutionalized and recognized by law, and the practice of industrial relations has evolved around this framework (see

FIGURE 3–1 Belgium: The Structure of Labour Relations

Level	Social Concerns	Economic Concerns
Country	National Labour Council	Central Economic Council
Industry	Party Commissions	Industry Councils
Plant	Trade Union Delegations	Work Councils

Source: E. Arcq, *Les relations collectives du travail en Belgique*, Dossier 17 (Brussels: CRISP, 1982), p. 16.

Figure 3-1). One source sees a major functional difference between the two hierarchies in that the social sector works generally through negotiation and the economic one through consultation (Arcq, 1982, p. 16). Collective bargaining, it might be noted, belongs in the "social" sector, not the "economic" one.

Of the bodies represented in Figure 3-1, only the trade-union delegations at the plant level lack a statutory base, and they are widely recognized through long practice, through certain national collective agreements, and through individual labour conventions at the industry or enterprise level. Further, all the bodies with a statutory base are founded on the principle of representational parity of workers and employers. Parity commissions at the industry level, first instituted in 1919 to meet specific problems in certain industries, soon became widespread and were recognized as permanent bodies for negotiation on an industry-wide basis. They are now governed by a 1968 law that requires equal representation of employers and workers (or salaried employees), a chairman from the ministry of labour (or the minister himself), and a precise territory of jurisdiction. They have become one of the sources of social rights, and their jurisdiction extends to all employers and workers in their territory.

At the top of the "social" sector stands the National Labour Council (*Conseil national du travail*, or CNT), created in 1952 to replace an unofficial predecessor body. By the Labour Relations Law of 1968, the CNT acquired the authority to negotiate multi-industry collective agreements. By 1982 some 30 such agreements had been concluded. Agreements signed under the CNT have the force of law, while others signed outside this framework have moral force only (Arcq, 1982, p. 9). Like the parity commissions at the industry level, the CNT is composed of equal delegations from employers and workers, currently 11 from each side. The employers include eight representatives of industry, two from small independent business (*classes moyennes*) and one from agriculture, while the workers' representatives are all drawn from the three large

union federations, five from the FGTB (socialist), five from the CSC (Catholic), and one from the CGSLB (liberal).[15]

On the economic side, the consultative bodies have a statutory basis at all three levels, the current legal basis of all three dating from a law of 1948 on the organization of the economy. The idea was born as early as the 1920s, and was inspired in part by German experiments in *Mitbestimmung* or co-determination in large enterprises. The membership of works councils at the plant level, like that of plant health-and-safety committees, is chosen by country-wide "social elections" held every four years in all plants employing more than 100 workers. Lists of candidates for these elections must meet certain minimum conditions of organization and representation, which means, in effect, that only the three large labour federations may present lists.

Above the works councils are the industry councils (*Conseils professionnels*), of which eight have been established (in metals, textiles and clothing, construction, fisheries, chemicals, food, leather, and paper). At first envisaged as consultative groups to give advice either on their own or on ministerial initiative, they have become, in effect, lobby groups for their own industries, and the views of their labour and employer representatives tend to converge. Above these industry councils is the Central Economic Council (*Conseil central de l'économie*, or CCE), whose function is to give economic advice to government and to respond to ministerial requests. Once again, the membership of 50 is based on parity: the employer side represents industry (9 members), commerce, banking, insurance and transport (4), small enterprises (4), and agriculture (5), while the trade union side represents the FGTB (8 members), the CSC (8), the CGSLB (1), and consumer cooperatives (5).[16] The problem with both these levels of economic consultation is that in recent years their influence has tended to be overshadowed by the emergence of *other* consultative and planning bodies with more specific missions, and not least by the proliferation of rival consultative and planning bodies at the regional and even the provincial level.

In Belgium the role of government in labour relations has developed less smoothly than in Switzerland, evolving through several distinctive stages and ideological transformations. The union with Holland, which existed from 1815 to 1830, had witnessed a high degree of governmental control and direction of the economy, which engendered a strong post-1830 liberal reaction that reached its apogee between the 1850s and the 1880s. A subsequent series of Catholic governments, in power until 1914, then led to a system of mitigated interventionism that operated in favour of workers and small independent producers (Chlepner, 1958). These tendencies were strengthened between the world wars by the simultaneous crises of Belgian parliamentarism and of the capitalist economy, the challenge of Keynesian economics, and somewhat later by

blueprints for the welfare state that emerged under the government-in-exile in London in the early 1940s. The background to the postwar period, then, is a long period of fluctuation in the state's role in the economy.

One labour expert saw the role of the Belgian state since 1945 as having passed through three further distinct phases. The early postwar years were a period of high national consensus, during which the government was seen as having a positive part to play in rebuilding the economic structure, in achieving full employment and an adequate social security system, and in fostering equitable income distribution. This was the period that saw the legislation completing the economic and social parity structures described above.

From the early 1960s until the mid-1970s, the Belgian economy had a period of unprecedented growth, and in this second period the role of the state in the economy receded. In bilateral negotiations between employers and unions, the latter obtained their economic objectives with little difficulty, and further social benefits accrued to the workers through social legislation. In an economic environment of impressive prosperity, "everything seemed possible." Among other gains, bilateral collective bargaining won full indexing of increases in the cost of living in virtually every sector. The result was a system of remuneration and social benefits that proved to be far more generous than the Belgian economy could sustain. Nonetheless, for almost two decades the framework for industrial relations was essentially bilateral negotiation.

All this changed abruptly in the wake of the economic crisis of 1974. The search for agreement between employers and unions became more difficult as resources diminished. By 1978 the government was back in the picture as an active partner. One can distinguish two levels of intervention in this third period. At first the objectives were to put pressure on both social partners to reach agreement, and also to slow down the rate of increase of wages. However, the formation of a centre-right coalition after the 1981 election (the so-called Martens V government) changed the balance of political forces and left the socialist parties in opposition. Stronger measures followed. Through its budgetary legislation, the government obtained special powers to impose controls over wages and working conditions, and in 1982 legislated first total and then partial de-indexation of wages. The former practice of informal *concertation sociale* with the social partners before policy was finalized was replaced by an attenuated *concertation sociale* on the means of implementing governmental wage policy after the objectives had been set. This policy marked the end of a long period of decision making by consensus in which the viewpoints of all three major ideological families and their respective parties and union federations were taken into account even when they were in opposition in parliament. In 1982 the

new centre-right government broke with this practice, and trade union resistance by the FGTB proved ineffective because the larger Catholic labour federation was unwilling to join in a policy of open confrontation.

The effect of governmental intervention since 1982 has been to assert greater control over a system of industrial relations that some observers have considered to be without direction. But the change is generally seen as a short-term response to a specific economic problem and is not considered a permanent feature of the system. There was in 1984 a widespread desire to return to the bilateral pattern of negotiation: in the socialist unions because they were currently excluded and powerless; in employer circles because of general distrust of interventionism; in the Catholic unions because of the specific content of wage restraint. One rather interesting result of this period has been that during the initial stages of pay restraint, wage concessions by the unions were only agreed to in return for a larger say by the workers, through the works councils, in how the resultant savings should be utilized. Employer circles in their turn have opposed any institutionalization of this trade-off through either legislation or collective agreements (Arcq, 1982, p. 13; Beirnaert, 1984, pp. 8–9).

There remains the question of the impact of regionalization on collective bargaining in general and wage policy in particular. At a time when many other aspects of economic decision making have already been attributed to the new regional governments — or are being sought after by them — there is a somewhat surprising consensus on leaving wage determination, hours of work, and other labour standards as continuing responsibilities of the central bargaining bodies.[17] The two major union movements seem wedded to the idea of preserving uniform country-wide norms in a time of retrenchment and scarcity. The national federation of employers (*Fédération des entreprises de Belgique*, or FEB) still believes in a central (or interprofessional) bargaining arena consisting of itself and the three major trade-union federations. The employers' federation of Wallonie (*Union wallonne des entreprises*, or UWE) concurs fully in this position, being quite satisfied to have "framework conventions" worked out at the central level for the entire country. Only the employers' association of Flanders, the powerful and prestigious *Vlaams Economisch Verbond*, or VEV, was perceived by representatives of other bodies as having a more pro-regionalist position on these questions, and in fact its position appears to be a more qualified one that makes strong claims for greater regional control of industrial development policy, but leaves social benefits legislation at the national level and relies on centralized and sectoral bilateral negotiation in the private sector to settle wage policy. On the strength of these views that represent a certain area of consensus even amid differences of emphasis and ideology, it is scarcely surprising that the locus for determining wage policy is as yet

hardly touched by the regionalization process. While most of the bodies comprising the social partners dislike unilateral government determination of wage policy, few if any, in 1984, would choose to escape from it by following the path toward regional autonomy for wage rates and other labour standards.

When we turn to other aspects of economic policy making, we find large areas of uncertainty and confusion arising out of the still incomplete regionalization of certain governmental powers listed in the legislation of 1980. That legislation gave to the regions a theoretical jurisdiction over a number of environmental and local or sub-regional concerns, most notably land-use planning, environmental and antipollution questions, rural renovation and nature conservation, housing, water supply and sewage questions, and also powers of surveillance and control over provinces and communes. It also conferred a number of powers more significant for general economic policy making, in principle those powers that can be exercised *within* a single region. Among those included and specified are:

- certain aspects of "economic policy" ("natural resources," "regional planning and public industrial initiatives," "regional aspects of credit policy," and "regional economic expansion," including the attracting of investors, aid to enterprises, aid to the tourist industry, and aid to agriculture); however, there are some specified limits to these actions, including the exclusion of five named "national sectors" of the economy (coal, steel, textiles, glass, and naval construction and repair);
- certain aspects of energy policy (low-tension electricity, gas, new energy sources, conservation, utilization of waste energy), but again with certain exclusions of matters requiring a uniform or coordinated country-wide application;
- employment policy, including the placement of workers and of the unemployed, and the "application of the norms" concerning foreign workers; and
- "applied research" relating to matters under exclusively regional competence.

Clearly, the legislation has conceded to the regions — as well as to the community councils — a large legislative competence, far larger than can be effectively assumed all at once by the modest administrative machinery so far in place. As of 1984, the executives of Flanders and Wallonie had been separated from the national government for less than three years, and their administrative staffs — mainly transferred from central government departments — had been in place for an even shorter period. The new Belgian political system is still very much at the stage of exploring and breaking in the new system, but it is already clear that many powers of the regions and the communities will have to be

interpreted and defined further by the newly appointed Arbitration Court. Such a process will clearly require several years, and additional legislative intervention will very likely occur during the interval. In short, the basic distribution of powers of 1980 appears to be unstable and incomplete in a political sense.

The imbalance between formal powers and means of implementation is further illustrated by a comparison of budgets. The combined budget for all three levels of government in 1983 was 1,721 billion Belgian francs (BF), which represented 41.5 percent of the Belgian gross national product. Of this amount 92.7 percent was allocated to national or central agencies, 3.7 percent to the three community councils (Flemish, French, German), and 3.6 percent to the three regions (Flanders, Wallonie, Brussels). If we make some adjustment for the fact that "national" expenditures still include some 65 billion BF for municipal grants distributed to communes according to criteria determined by the regions and also some 243 billion BF spent by the two linguistically separated departments of education at the national level, one could make the case that roughly 25 percent of total Belgian current and capital expenditure is allocated either to the regions or to the cultural communities in one way or another. Moreover total receipts initially budgeted in 1983 amounted to 1,278 billion BF, which left a projected budget deficit of 443 billion BF or 26 percent of total expenditures to be met by deficit financing.[18]

Further, the revenues of the communities and regions have hitherto come almost totally from the national government. By far the largest source is the *dotation* or grant credited to the subordinate governments by transfer payment from central government revenues. In 1983 this source accounted for well over 90 percent of the revenues of all three regions and of all three communities, the money being allocated according to prearranged formulas. A second source is the return or yield from certain taxes that can be localized in one region or in one community (e.g., television licences), and the proceeds of these are also credited to the jurisdiction concerned. Both the regions and the communities have further potential sources of revenue from their power to levy supplementary taxes or to borrow funds under certain conditions. So far no council has shown any inclination to tax independently, nor has any council resorted to borrowing to supplement its allocated current or capital grants.

It is somewhat hazardous to attempt any evaluation of the economic powers of the regions at such an early stage of their development. Nevertheless, it is fairly clear that the regional executives and councils have begun to follow somewhat divergent courses that reflect both the problems and the predominant ideological orientations of the respective regions. In Wallonie the emphasis has been on the salvage and reconver-

sion of an economy left in ruins by the closure of the coal mines and the obsolescence of the steel industry. The Walloon Region, either directly or through the *Société régionale d'investissement de Wallonie* (SRIW), has invested substantially in the rescue of ailing industries and the founding of new enterprises in the blighted areas, through loans, bonds, and direct share participation.[19] At an early date the regional executive, concerned about the questionable utilization of some of these public investments, made grants conditional in certain cases on the establishment of committees of surveillance and control in which the workers participated, and this was further systematized by a *décret* of the Regional Council (Région wallonne, 1981, pp. 10–11).

In Flanders the policy trend has been to reinforce and build upon the existing dynamism of the Flemish economy and to make the population more aware of and prepared for rapid changes in technology. Since 1980 the regional government has deliberately selected three of the newer technologies for specific development — microelectronics, biotechnology, and new materials — and has elaborated a strategy for each. While opinion in Flanders generally has (or is believed to have) a greater mistrust of state involvement in the economy, the regional government has not hesitated to establish some direct participation in these areas (*Canada, Belgique, Luxembourg*, 1984, no. 91, pp. 11–18). The Brussels region has also developed its own strategy for attracting new financial and industrial investment, stressing the advantages of a cosmopolitan capital, banking and financial facilities, a good transport network, and civic amenities (*Investing in Brussels*, 1982).

In slightly longer perspective, it seems clear that the centre of gravity of the Belgian *question communautaire*, which focussed primarily on equality of language rights in the early 1960s and on cultural (or community) autonomy in the later 1960s and early 1970s, has become more focussed on decisional autonomy of the regions in economic matters in the later 1970s and 1980s. Behind this evolution lie regions facing broadly different problems and placing reliance on different solutions, solutions that presuppose different kinds and degrees of intervention by the public sector. In Flanders one encounters a widely expressed fear that the region's economic growth will be held back by the need for enormous public subsidies required for Wallonie's aging industries, subsidies typified and foreshadowed by the massive sums already committed to the rescue of the Cockerill-Sambre steel complex in Wallonie.[20] Faced with the likelihood of continuing demands for public investment, virtually all special-interest organizations in Flanders favour extension of economic regionalization to encompass the five "national sectors" specified and excepted from regional competence by the law of 1980. There are, however, political obstacles on this point because formal changes to the 1980 division of powers would require legislation passed by special

majority, which the present (1984) Martens-Gol government does not have.

Opinion in Wallonie is more divided. The employers' federation, the *Union wallonne des entreprises*, recognizes the advantages for Wallonie of continuing central government financing of the five national sectors, and therefore advocates moving toward a "Swiss-type federalism" that combines centralization in economic matters with decentralization in other fields.[21] On the socialist side the temptations toward further regionalization are stronger, but here the emphasis is on either complete or partial institutional and budgetary transfers of certain key policy-making and operating departments (e.g., Agriculture, Economic Affairs, Public Works, Communications, Scientific Research), as well as the transfer of the entire education budget to the community councils. The effect of such a transfer would be to leave the central government primarily as supplier of a few basic national services (e.g., defence, police, foreign affairs, justice), as provider of the more costly social benefits (pensions, social insurance, unemployment assistance), and as carrier of the public debt, which is the largest single item of public expenditure at any level (*L'avenir institutionnel*, 1984, pp. 15–26).

Although the present Belgian political and economic scene is beset by much confusion and even contradiction, we may venture somewhat speculatively to interpret present trends and future directions. Both Flanders and Wallonie have experienced powerful pressures from regional interest groups to obtain greater control over the most important levers of economic and social change at the regional and community levels. This quest has been formulated in somewhat different ways as a response to somewhat different situations. There is nevertheless a widespread perception — which may, however, be a false one — that there are economic benefits to be gained from a more thorough regionalization of economic decision making at the planning and strategy level than has been achieved so far. On the other hand, there is also an unwillingness in either region to allow the other the freedom to dismantle, weaken or even modify any existing feature of the welfare state. Somewhat paradoxically, the continuing uniformity of wage rates and social benefits rests upon the strong reciprocal distrust of the linguistic communities for each other, in an economic climate in which pressures for retrenchment have been very strong.

To an outsider, the contemporary Belgian scene has an air of unreality. It is unrealistic in economic terms in that the proponents of enlarged regionalization on both sides aspire to assume a greater degree of economic control at the regional level while remaining unwilling to shoulder the concomitant burdens of social welfare costs and debt charges that have been accumulated by the central state. It is probably also unrealistic in political terms in that it is difficult to imagine any effective

central government willingly allowing such an unbalanced distribution of costs and benefits to arise at its own expense.

It is difficult to explain the regionalization of economic policy making solely in terms of economics. There seems to be no clear economic advantage either for present policy or for foreseeable extensions of decentralization. The most that can be said is that regionalization may serve to harness extra energy and motivation generated by linguistic nationalism. On the other hand, it may be easier to demonstrate a rationale for regionalization in political terms. One could argue that in the present state of intercommunity relations, the trend to regionalization is producing greater *political* satisfaction, even if economic performance is not thereby improved. There may be a trade-off between indifferent or worsened economic results and higher political and psychological satisfaction arising from enhanced perceptions of autonomy. Any sober assessment of economic regionalization to date (i.e., to 1984) must realistically conclude that the effective economic competence of the regions is so far quite limited, and that in spite of superficial appearances to the contrary, the major instruments for control over the economy have remained with the central government. Nevertheless, what may be more significant is the direction of change, and the impressive number of observers close to the scene who conclude — some with approval, others with regret — that the trend to regionalization will continue.

Finland

Before concluding, we may notice more briefly the case of Finland. This examination will be condensed, for the simple reason that the most central areas of concern in the two previous cases — the system of collective bargaining and wage determination — do not currently reveal significant, identifiable, language divisions between Finnish speakers and Swedish speakers in either the organizational structure of the social partners or the collective bargaining process. The history of worker-employer relations in Finland is both turbulent and interesting, but it yields little evidence of any impact of linguistic and cultural diversity on consultation and decision making. One may, however, ask *why* Swedish-language concerns and inputs are currently insignificant in the industrial relations process, and one may also note certain other channels through which the economic interests of the Swedish-speaking minority are expressed and defended in the political process.

First of all, it is important to remember certain structural factors. Since the separation of Finland from Sweden in 1809, Swedish speakers have always been a numerical minority in the country. Further, their proportion of the population has gradually declined, from 14 percent in

1880 to less than 7 percent in 1970, through the combined effects of lower birthrates, higher emigration rates, and language shift resulting from intermarriage. Historically, Swedish speakers constituted the majority of the aristocracy, the bourgeoisie, and the urban population, but they also included agricultural and fishing communities along the south coast, the east coast, and in the Åland islands between Finland and Sweden. Industrialism came rather late to Finland, and when it came, industrial workers were recruited mainly from the Finnish-speaking population. In addition, Swedish-speaking workers faced no significant language barriers in Sweden, where wages have generally been higher. Those in the Finnish work force and in mixed-language situations were less resistant to language transfer than were middle-class Swedo-Finns. As a result Swedish speakers, a relatively small group in the population at large, make up an even smaller proportion of the industrial labour force,[22] and with a few specific exceptions have neither sought nor received special organizational status in the trade-union movement.

The development of collective bargaining in Finland during the twentieth century has been shaped by the combined influences of Tsarist Russian repression, class conflict, civil war, and, more recently, by the example of Scandinavian models of industrial relations. The 1905 uprising ranged workers against a nervous bourgeoisie that resisted Russification but also feared social disorder. The 1918 War of Liberation was also a civil war that saw the chairman of the Finnish Employers' Confederation (STK) executed by the Red forces and the general manager forced into hiding. Only in the 1930s did the hostile climate begin to thaw, and by 1937 the Social Democrats joined the Agrarian Party in a coalition government. In 1939 the Winter War quickly brought the two sides together in defence of the fatherland and led to a joint agreement, in January 1940, between the Employers' Confederation (STK) and the Finnish Confederation of Trade Unions (SAK) to settle labour issues through negotiation. The first General Agreements, laying foundations for generalized collective bargaining, date from 1944 and 1946. However, Finland's military efforts and heavy reparations payments to the U.S.S.R. after 1945 brought the need for extensive government controls over wages and prices, a policy that lasted until 1955 (Krusius-Ahrenberg, 1960, pp. 35–36). This regulatory role of the state continued longer than market conditions required, partly for reasons of public order and apprehension of Soviet intervention.

The relaxation of state regulation was followed by a three-week general strike in 1956. For some years after the strike, the labour-market associations enjoyed unfettered negotiating autonomy. Though the period was complicated by a split in the main union movement into two competing federations, the general economic trend was toward inflation and automatic indexing of wages, prices and even bank loans. In an

effort to escape this automatic escalation, the government, in 1968, assumed a more active third-party role in encouraging the parties to reach a wages accord, and the subsequent history of industrial relations is a further example of the tripartite model that appears to resemble the Scandinavian and especially the Swedish model, but that operates within a substantially closed economy (Kauppinen, 1983, pp. 21–25) and in a political environment requiring multi-party governments. As one author summarizes the recent situation, the relationship between interest organizations and the state "has fundamentally changed since the Second World War from the traditional relations of pressure politics characteristic of pluralism to a tendency towards a corporative-type of joint consultation and collaboration," with change occurring most rapidly since the late 1960s.[23]

Although intrinsically interesting, the contemporary Finnish model reveals no significant organizational cleavage between the language groups in the labour-relations field, no divergent inputs or demands in the bargaining process, and no divergent benefits obtained from it. Some of the possible reasons for this invisibility of the language cleavage in labour relations may be better understood if we look more closely at the social partners and the general linguistic environment. Linguistic tensions in Finland, although high in the last decades of the nineteenth century, have been largely overshadowed in the twentieth by class conflict. Since 1945 they have surfaced only sporadically and mainly around a few specific issues. In the 1920s and 1930s, when tensions ran higher, the Swedish-speaking population was widely perceived by the Finnish-speaking masses as an upper class only, a view that was distorted in relation to the country as a whole but characteristic of many localities in the interior.

As noted above, Swedish speakers are underrepresented in the blue-collar work force. They have not had special recognition in trade-union structures, though their geographical distribution guaranteed that some union locals would have significant proportions of Swedish speakers. In SAK unions, general operations and collective bargaining at the central or industry level are conducted in Finnish only, with agreements then being translated for the benefit of the Swedish-speaking membership. Among white-collar unions, there are a few examples of separate sections for Swedish speakers (teachers) or even of separate unions (foremen and technicians, works engineers, church musicians). These few minor exceptions comprise a very small percentage of the total labour force.[24] Farmers, one might note, also have separate organizations according to their language.

On the employers' side, somewhat different structural factors have been at work. In the early years after independence, the board of directors of the Finnish Employers' Confederation was composed mainly of owners of the larger industries, and many of these owners were

Swedish speaking. Some were also active in politics as members of parliament or even as ministers. In the post-1945 period there has been more representation from the newer and smaller-sized firms, which are often Finnish-owned,[25] and from the ranks of paid managers rather than owners. Down to the late 1930s, STK operated in Swedish, under a Swedish-speaking manager (Palmgren) who was also an active parliamentarian in the Swedish People's Party. By the late 1930s, documentation was appearing in both languages, and gradually Finnish became the normal language of operations, though services to members are still provided in both languages. In the climate of intergroup tension of the interwar period and of a changing linguistic balance in industrial ownership after 1945, it would quite probably have been counterproductive and internally divisive to call attention to the linguistic factor. Consequently the STK has maintained a consistently low profile with respect to language issues, leaving the claims of the Swedish-language minority to be pursued in other arenas.

If the history and institutionalization of Finland's industrial relations show little trace of specific concern for minority interests, these interests have nevertheless been expressed and defended vigorously through several other channels. First and foremost, Swedo-Finns of the centre and right have had their own political party, the Swedish People's Party (SFP), which has captured an impressively high proportion of the Swedo-Finn vote ever since the franchise reforms of 1906. The SFP is normally represented in the governing coalition, and the presence of one or two Swedish-speaking ministers in the cabinet is perhaps the first and strongest channel for minority inputs into economic decisions and for the defence of minority interests. On the political left, the Swedish minority has a separately organized section of the Social Democratic Party, Finlands Svenska Arbetarförbund, founded in 1899, which perhaps offsets its lack of separate representation in the trade unions. A similar Swedish-speaking section exists in the Communist Party (SKDL).

The economic, as well as the cultural and educational, interests of Swedish Finland are further debated, coordinated and expressed through an unofficial parliament or estates-general, Svenska Finlands Folkting, composed of representatives of six Swedish or bilingual parties in proportion to the votes cast at the most recent communal elections (Melin, 1981, pp. 20–22). Another line of defence exists at the level of municipal governments. A separate association of Swedish and officially bilingual municipalities, Finlands Svenska Kommunförbund, works in parallel on local government questions with two counterpart Finnish-language organizations and is represented alongside them on a wide range of public boards and commissions. One of its important day-to-day roles is overseeing the administration of a wide range of national legislation in ways that assure distributive justice to the linguistic minority, particularly in bilingual communes.

In summary, we may conclude that for Finland the economic as well as other interests of the Swedo-Finnish minority are protected by their historically favourable economic and social status, by constitutional guarantees of equality of treatment for citizens of either language, and by an active network of associational support that assures representation on a very wide range of political and public bodies from the cabinet down to minor associations at the local level. The Finnish political system today is very much one of power sharing between the two language communities, with Swedo-Finnish institutional separation confined largely to voluntary associations and pressure groups (and even these often work in close collaboration with Finnish counterpart associations in the same sector). In the area of central concern to this essay, the organization and conduct of industrial relations, both employers and workers are highly organized and a system of tripartite bargaining is highly developed; nevertheless the organizations in the labour market, with minor exceptions among the trade unions, serve a combined Finnish-speaking and Swedish-speaking membership with no outward signs of friction or of minority dissatisfaction. Some of the reasons for this absence of conflict or minority discontent in industry may, of course, be attributable to the rather special structural characteristics outlined above.

Conclusions

By way of reaching conclusions, we may begin by placing the main features of the three case studies in a somewhat simplified comparative perspective, in order to see which aspects of this experience may be relevant for Canada. It must be noted that this comparison must be less than exact in a scientific sense. Hard, quantifiable data are scarce, and each country reveals variations from one policy area to another in the role played by its linguistic or cultural minorities. Nevertheless, subject to these qualifications, some comparative conclusions may be suggested.

The Industrial Relations Model and Minority Participation

Switzerland follows essentially a bipartite model of collective bargaining, while Finland comes closest to a stable tripartite model. Belgian collective bargaining has undergone major changes in recent years, from bipartism to partial tripartism to a legislatively controlled wage policy. Over the last few years it must be regarded as unstable or transitional, though it remains centralized in a territorial sense.

Substantial minority participation in collective bargaining occurs in all three countries, but careful qualifications are required in each case. Belgium carefully balances both ideological tendencies and languages, through a combination of statute and convention. So far collective

bargaining has been little affected by strong pressures for regionalization of other economic issues. Switzerland is less precise in balancing representation, in part because the bargaining process is less regulated by the state, but also because the Swiss system appears to allow for greater decentralization of bargaining to the cantonal level, which gives minorities considerable autonomy. In Finland the minority participates in collective bargaining, but is not separately represented as an identifiable group on either side.

Minority Representation and Participation in General Industrial Policy

Here the answers must be qualified and differentiated even more carefully. In all three countries the minorities have full proportionate representation in the central political arena (i.e., in parliament) and are heard effectively at that level. It is doubtful, however, that effective control of basic industrial policy really resides in the parliamentary arena. Switzerland avoids this problem by leaving much to market forces and declining to follow any large-scale industrial strategy. Strong attempts to make an exception for the watch industry were unsuccessful in changing this practice. Belgium has elaborate and balanced consultative machinery on a statutory basis, but the current tendency is to bypass this arrangement in favour of allowing greater control over industrial policy at the new regional level (Flanders, Wallonie and Brussels). The emerging problem in Belgium is not so much one of participation of the two language communities or the three regions as one of maintaining some minimum economic coordination between regions under conditions of severe strain on the political system. Finland has a fully developed system of consultation on general economic policy, but once again, minority concerns are scarcely noticeable in its functioning.

Minority Sharing in Economic Rewards

On this point the economic position of the minorities probably owes more to historical and structural factors than to specific governmental institutions or policies. The Swedish-speaking minority in Finland was historically privileged and still enjoys a slight, though diminishing, economic advantage over the Finnish-speaking population in terms of occupational status, living standards and, probably, in property holdings also. Average incomes in French and German Switzerland are closely comparable, although per capita savings and capital accumulation are higher in German Switzerland. Italian Switzerland lags somewhat behind the other regions, as does the partially Romansh-speaking canton of Graubünden. In Belgium increasing prosperity in Flanders and the problems of economic restructuring in Wallonie have led Flanders to overtake and surpass Wallonie in per capita income, while Brussels-Capital, once well above the national average, has lost much of its advantage since the mid-1960s.[26]

Minority Perceptions of the Fairness of the System

In Finland the Swedo-Finnish minority has major concerns about cultural maintenance, but few, if any, grievances on the economic side. Most Swedo-Finns accept the need to be bilingual and to work in Finnish as a practical necessity for any minority of such limited numbers. In Switzerland the income structure and the greater capacity of German Switzerland to generate capital for investment are largely accepted by the minorities as an outcome of industrial structure and market forces, and not of government policy. Although economic imbalance is a source of worry, the system is not seen as unfair to the minorities or as oriented against their interests. In Belgium, where the level of political hostility and distrust is already high for a variety of reasons, each language community tends to view the political system as economically biased against its own region, and each seeks greater regional autonomy to improve its relative position by direct governmental action. The essential point, however, is that each side has different objectives in the quest for greater autonomy, and difficult negotiations are clearly necessary if the two sides are to arrive at a mutually acceptable compromise.

Does the experience of Switzerland, Belgium, or Finland in these matters have any lessons for Canada? Our brief survey suggests, first of all, that none of these three countries can be considered a clear example of a stable tripartite model with effectively institutionalized recognition of linguistic or cultural pluralism. Each of the three cases reveals at least one weak or missing element. Switzerland leans toward bipartism rather than tripartism, with low governmental involvement. Belgium is, at present, in transition, rather than stable. Finland represents effective tripartism, but without institutionalized cultural pluralism. Nor do any of the more obvious examples of tripartism — Sweden, the Netherlands, Austria or West Germany — display linguistic-cultural diversity comparable to that of Canada (though they do have deep ideological and class cleavages that help to explain their development of tripartite forms of economic management). This does not mean that a combination of ethno-linguistic diversity with tripartite or corporatist economic mechanisms is impossible, but it does suggest that such a combination may be difficult, that it may involve extra costs or burdens, and that it must be structured with great care.

If we look more closely at the Canadian case, several structural obstacles to a more explicit tripartite system of collective bargaining immediately become obvious. The present structure of the private-sector partners is highly fragmented. On either side there are no obvious organizations with a mandate to bargain, nor is there any tradition of multi-sector collective bargaining in Canada. Secondly, much of the Canadian labour force is under provincial jurisdiction, both for collective bargaining purposes and for certain kinds of social benefits. Further, federalism in Canada is an important device for accommodating both regional and linguistic/cultural divisions, so that to shift jurisdiction

from the provincial to the federal arena would require the federal system to assume any additional burdens stemming from regional or cultural alienation. At the present time, any such transfers would undoubtedly be strongly resisted.

Further structural difficulties relate to the general character of the Canadian political system. The European tripartite systems coincide in every case with a strong representation of parties of the left in the political arena and a strong tendency for these parties to participate in government. In Canada the left has been politically weaker and excluded from government, at least at the federal level, a factor that might well deter the labour movement from accepting joint responsibility for economic decision making. It is, moreover, somewhat difficult to envisage stable tripartism in Canada without a concomitant political system of proportional representation in legislatures and power sharing among political parties. Finally, the prevailing ideology of individualism in English-speaking Canada might well prove an obstacle to public acceptance of tripartism, though French-Canadian traditions may be more compatible with the modes of collective political action implied in tripartism.

One may also raise another issue illustrated by the European cases, namely, to what extent ethnic and linguistic representation in economic decision making is currently called for in Canada, and whether that representation should be structured and explicit or left to be settled by informal practices. The European cases diverge on this point. In Switzerland and Finland the language cleavage is not currently sensitive enough to require explicit recognition in centralized collective bargaining. In Belgium, however, linguistic representation is carefully monitored in the partners that engage in centralized collective bargaining, while economic decisions in other areas are being increasingly delegated to the regions, where the language communities have substantial autonomy. Thus Belgium exhibits both of the major options available to a plural society: balanced power sharing in a central arena and group autonomy in relatively homogeneous regions.

It seems clear from the events of the past quarter-century that in estimating the level of linguistic/cultural tensions, Canada must be considered closer to Belgium than it is to either Switzerland or Finland. The Canadian case, however, reveals some key differences. First, Canada lacks the structural prerequisites for central decision making that have been available to Belgium. Secondly, unlike all three European cases, the principal minority-language community in Canada has also been the economically underprivileged one, and recent language tensions are in large part a reflection of the efforts of the francophone community to make up arrearages in economic development and economic status. To recognize this factor is to underline the need for explicit recognition of francophone interests in economic decision making.

The more particular question is what form or forms that recognition

could take. Here the answer might vary from sector to sector and even from issue to issue, and detailed prescriptions are difficult. Nevertheless, it would appear that for collective bargaining and wage policy, the industrial relations system in Quebec is thoroughly established, and that it has tended more toward centralization — and even elements of tripartism — than the systems of most other provinces. Any new federal initiatives in this area would have to recognize and complement this ongoing system, and the attractiveness of provincial autonomy might outweigh expected gains from greater interprovincial coordination. For fields under federal jurisdiction, the rise of a more significant francophone presence in Ottawa since the 1960s makes it possible to think in terms of appropriate power-sharing mechanisms in decision making.

In short-term perspective, the prescriptions for Canada suggested by our comparative analysis may be summarized in a few sentences. For a country that is constitutionally decentralized to a degree comparable with Switzerland, linguistically divided to a degree comparable with Belgium, and geographically extended far more than either, the assumption of additional burdens of economic decision making by the federal authorities should be a matter for sober second thought. The benefits should clearly be seen to outweigh the risks. At a time when "governability" has become a serious issue in many Western democracies, any country with a high potential for conflict between cultural groups might well consider the advantages of reducing the total load on its central government by *not* assuming central responsibility for major economic decisions. The difficult road to regionalization in Belgium can be seen as one strategy for load reduction, and the Swiss reliance on a combination of market forces, bipartism and territorial decentralization is another. On the other hand, a government that opts for some form of tripartite model with substantial inputs into economic decisions from the private-sector social partners may find itself held politically accountable for decisions not entirely of its own making.

The possible strategies open to the federal government for keeping its total load manageable appear to fall into three broad categories:

- Policies of economic non-intervention. These could take the form either of reliance on market forces or of gentle encouragement of more centralized bilateral dialogue between industry and labour (i.e., first steps toward bipartism).
- Decentralization of certain economic issues to the provincial arena. Here provincial governments would, in turn, have similar options, but the load arising from cultural pluralism and regionalism would be lower for most provinces than it is for the federal government. On the other hand, policy choices under this option might well diverge from one province to another and even offset one another.
- Development of more extensive patterns of federal-provincial cooper-

ation in economic policy making. Under this option the load would be distributed more widely through the system, but the risks of immobility would be higher, because the difficulties of attaining consensus would increase. The Swiss procedures for consultation illustrate both the strengths and the weaknesses of this option.

These three broad options are in no sense mutually exclusive. All of these strategies might be pursued simultaneously, according to the particular economic issues involved.

The use of these load-reducing strategies might be the most prudent course for federal economic policy making in the short run. These strategies recognize the current structural and attitudinal difficulties in the Canadian political system and the inadequacies of present institutional arrangements for addressing them. In the longer run, however, societies and governments can gradually change course by coordinated purposive action, and short-run constraints can be reduced, avoided or overcome. The need for such a change of course is suggested by the difficulties of surviving as a more or less open economy in an increasingly competitive world economic system.

In such an environment some of the negative factors outlined above could be attenuated or overcome in the middle or long term. The present fragmentation of authority among both employees and unions would be partially bridged through repeated federal initiatives for consultation and dialogue. Conflict between the provinces and Ottawa could be reduced through meaningful federal-provincial conferences and other channels. The confrontational style in Parliament itself might well respond to more positive involvement of opposition members in parliamentary processes. If parties of the left and the trade-union movement acquired greater legitimacy through wider and more effective consultation, they might become more willing to take responsibility as participants in decision making. Even the traditional ideology of individualism seems capable of making pragmatic adjustments to increasing societal interdependence. All of these possibilities exist in the longer term, although then, it might be noted, a modified political system might well require new devices (such as the Swiss initiative and referendum procedures) to guarantee accessibility to the system for new forces of opposition.

It is not easy to devise an exact strategy for these longer-term objectives, but one can identify a few of its major ingredients. One central requirement is to open up a multi-directional dialogue on areas of concern. It should be conducted, in the first instance, between the federal government and the provinces — the "federal" partners — and more or less simultaneously between the governments and the "social" partners. These would comprise, in the first phase, the bodies representative of business and trade unions that are now in place, but with some recogni-

tion of other interest groups such as agriculture, consumers' groups, and so on. Beyond these central participants, such a dialogue should draw in other political parties and the public at large. A second prerequisite for this program is that participants maintain an attitude of openness to change, of willingness to take time for opinion to evolve and consensus to be formed, even at the risk of some temporary instability or loss of efficiency.

The federal government would be only one participant in an exercise of this kind, but because of its central position in the system, it is in a strong position to set a highly visible and indeed a compelling example to the other participants. Further, the opportunity for change is markedly greater for a new government, which has fewer obligations and commitments to past policies. In this sense the observable disposition in recent months towards wider consultation is a good augury for a more systematic and institutionalized extension of the consultative principle, and it should not be abandoned if positive results are not immediately visible. The Canadian political system has long and deeply rooted traditions of divided jurisdictions and majoritarian styles of decision making. It should not surprise us if more consensual approaches to large-scale problems are likely to win acceptance only slowly.

Notes

This paper was completed in October 1984. Because of the limited time available in the summer of 1984 for new field research directly related to the essay, some of the findings are necessarily impressionistic and based on interviews.

1. The wider background of the essay is based on two larger volumes that focus on linguistic and cultural pluralism, but place less direct emphasis on its economic implications, published under the title *Conflict and Compromise in Multilingual Societies* (Waterloo: Wilfrid Laurier University Press), vol. 1, *Switzerland* (1983); and vol. 2, *Belgium* (1986). The larger project has been made possible by research grants from the Killam Program, the Canada Council, and the Social Sciences and Humanities Research Council of Canada.
2. The more detailed working of these procedures is described in OFIAMT, (1980, vol. 2, pp. 277–325).
3. A popular initiative for a constitutional amendment to shorten the hours of work to 40 hours per week was defeated in December 1976, with negative majorities in every canton. See *Annuaire statistique de la Suisse* (1977, p. 562).
4. Fischer (1982, p. 82–83). For an official overview of regional policy, see *Feuille fédérale* (1983, III, 497–650).
5. OFIAMT, vol. 1, pp. 63–67. Lambelet's paper (1985a) shows a much larger decline in foreign workers (245,000 from 1974 to 1976), but the components for this figure are not made clear.
6. Lambelet (1985b). For the structural imbalances in the cantons of Neuchâtel and Jura, see Fischer (1982) and Bloque and Kunz (1982).
7. In 1982, the eight largest banks all had their headquarters in German Switzerland, and the four largest institutions in French Switzerland had combined assets of less than one-quarter of the assets of the Zurich-based Union Bank of Switzerland. See *Les principales entreprises de Suisse* (1983, pp. 12–13).

8. Based on data in the files of the Fondation pour la collaboration confédérale, Solothurn (N = 1,043 for boards, 379 for managing directors).
9. Both these channels of consultation are discussed in Neidhart (1976, pp. 18–24). Still a third channel of consultation, the broadest, most fully institutionalized, and undoubtedly the best known, is the popular referendum, widely used at both federal and cantonal levels.
10. The evidence for these points is reviewed in greater detail in McRae (1983, pp. 82–92).
11. Ibid., pp. 100–104.
12. Among others, members of the Arbitration Court, which will settle conflicting jurisdictional claims among the three levels of government and between bodies at the same level, were first appointed only in mid-1984.
13. The tiny German-speaking community in the East Cantons received constitutional recognition as a third cultural community in 1970, even though it constitutes less than 1 percent of the Belgian population. Its territory is not recognized, however, as a separate economic region.
14. The tendency to split on linguistic lines has also occurred in the small environmental parties, and in 1984 in the Belgian Communist Party.
15. *Avis concernant . . .* (1982, p. 12). Each of the two larger union federations is carefully balanced in all its central organs so as to reflect the linguistic composition of its membership, the FGTB on the basis of parity, the CSC on a majority-minority formula.
16. The remaining six members are chosen by cooptation. Ibid., p. 13.
17. The positions of organizations outlined in this paragraph were gained through interviews with middle-level spokesmen for the organizations. It is assumed that the spokesmen were reporting accurately the position of their organizations.
18. Data in this paragraph are from the text and annexes of Tournemenne (1984).
19. For amounts and typical examples, see SRIW (1981–82).
20. The reorganization of the Cockerill-Sambre empire is a labyrinthine issue of long standing. The amount of state aid to the steel industry escalated from 10 billion BF in 1978 to 105 billion BF in 1983, or roughly 6 percent of total government expenditures. Of these subsidies about 80 percent went to Cockerill-Sambre.
21. Interview with an official of the Union wallonne d'entreprises (UWE), May 1984.
22. In 1960, for example, the census showed Swedish speakers comprising 21.9 percent of the managerial group, but only 5.9 percent of workers, at a time when they made up 7.6 percent of the total work force (Miljan, 1966, vol. 1, p. 239).
23. Voitto Helander in Helander and Anckar (1983, p. 28).
24. In 1979, the membership in separate Swedish-language unions totalled under 4,000 in a unionized work force of about 1.4 million, or less than 0.3 percent. See *Statistical Yearbook of Finland* (1980, pp. 300–301). On the other hand, it is estimated that SAK has about 50,000 Swedish-speaking members of a total of about one million (Melin, 1981, p. 23).
25. In 1983, the Employers' Confederation (STK) had about 5,300 member companies employing 630,000 persons, while a second organization of commercial and financial employers (LTK) had 6,000 member companies employing 280,000 persons. See Kauppinen (1983, p. 9).
26. In 1964, the average taxable income per capita, calculated as a percentage of the national average for that year, was 91 for Flanders, 95 for Wallonie, and 160 for Brussels. In 1980, the corresponding figures were 100, 95, and 115 respectively. McRae, (1986, vol. 2, p. 80).

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4

The Politics of Employment and Welfare: *National Policies and International Interdependence*

ANDREW MARTIN

Introduction

To what extent can governments in the advanced industrial countries of Western Europe and North America combine full employment and a welfare state with participation in an open, capitalist international economy? For much of the period since the end of World War II, the extent to which these governments could combine such policies seemed substantial. Indeed, movement toward an increasingly open international economy seemed to foster economic growth and, in turn, make it relatively easy for governments to counteract deviations from full employment by stimulating demand, and to channel resources into the transfers and collective services comprising the welfare state. While this possibility was certainly utilized to varying degrees and with varying effectiveness in the different countries, it seemed to remain substantial through the 1960s. It seemed decreasingly substantial in the 1970s, however, and in the 1980s it appears to be severely limited.

How much of a dilemma this poses for any government obviously depends on the extent to which that government is committed to either of the two kinds of objectives that have become so difficult to combine. It is evidently not a serious dilemma for a government willing to tolerate, or even induce, unemployment and to undermine the welfare state in pursuit of other objectives; as in Britain and in the United States, where the political constraints against such a policy have proven weak. Nor is it a serious challenge for a government willing to limit the domestic economy's exposure to external constraints; although no governments seem as ready to escape the dilemma by this second route as by the first, notwithstanding the protectionist measures taken at national and

regional levels. But for governments that remain committed to employment and welfare goals in a country where they might be even more difficult to attain without a high degree of integration in the international economy, as in the smaller countries with open economies like Austria and Sweden, the dilemma is indeed serious.

This paper explores the dilemma facing such governments. It does not pretend to offer a comprehensive analysis of the sources of the dilemma or the possibilities for coping with it. It is more narrowly focussed on the political factors accounting for differences in the extent to which employment and welfare goals are pursued in different OECD-area countries, and on the effects that the resulting policy differences have on the extent to which those goals can be attained in countries whose economies are interdependent. Even so, the scope of this paper is obviously very broad, and the issues to which it is addressed are complex. The limits of time, space and knowledge mean that the consideration of those issues can only be thematic, selective and suggestive. If the discussion nevertheless provokes some fresh consideration of those issues, all that can reasonably be expected of it will perhaps be accomplished.

The argument presented in this paper can be summarized in drastically oversimplified form, as follows. The single most important factor determining the extent to which governments in the advanced capitalist societies pursue employment and welfare goals is the political strength of organized labour. The extent to which that political strength can be translated into effective policy for attaining such goals depends, in turn, on the strategic and institutional capabilities of governments built on that strength. The adequacy of those capabilities is relative to the economic conditions to which they are addressed. Economic interdependence makes the economic conditions addressed by the policies of any of the governments depend significantly on the policies pursued by other governments. The impact of different governments' policies on one another varies with those governments' weight in the international economy. The distribution of political support and capacity for employment and welfare goals among interdependent countries with varying weight can therefore be expected to affect the extent to which those goals can be attained by the individual countries.

Because of the size of the U.S. economy, its policies have had the most decisive impact on the international economy over the postwar period, even though the decline in its relative weight has eroded the hegemonic position the United States occupied earlier in the period. That impact has influenced the structure of interdependence by shaping and reshaping the "regimes" governing international transactions, as well as the levels of activity in the interdependent economies. The relative weakness of labour in the United States, compared with some of the other countries, has given employment and welfare goals a lower priority in the United States than in those other countries. U.S. policies

can therefore be expected to inhibit the attainment of these goals in the other countries.

Such a tendency was discernible in the initial U.S. policies for the postwar economic order, and it is much more strongly evident in the 1980s. In the long intervening period, however, the tendency was offset by U.S. strategies in its geopolitical rivalry with the Soviet Union and by the dynamics of party competition in the domestic electoral arena. The intervening period began with the onset of the Cold War, when the United States responded to the perceived threat of Soviet power by shifting to a pattern of policy that facilitated attainment of employment and welfare goals in other countries. The United States initially followed this course by financing economic reconstruction and continued to follow it in different ways until roughly the late 1960s. From then to the end of the following decade, U.S. policies had a less favourable effect on the attainability of welfare and employment goals, primarily because it contributed to instability in the international economy by alternately imparting strong inflationary and deflationary impulses to that economy. To this point in the 1980s, the U.S. policy mix of increased military spending, decreased taxes and restrictive monetary policy has severely obstructed attainment of those goals abroad, as well as at home. This pattern of policy became possible because the political weakness of labour in the United States and the limited strategic and institutional capabilities of Democratic administrations combined to diminish significantly the political constraints against high unemployment and erosion of the welfare state. Thus, the extent to which the attainment of employment and welfare goals in other countries has been facilitated or inhibited by U.S. policies has varied, depending on how successive administrations have pursued the international and domestic goals for which political support could be mobilized.

While U.S. policies have decisively affected the changing international economic environment, conditioning the extent to which the goals pursued by governments in the other advanced capitalist societies can be attained, their choice of goals and the extent to which they are attained nevertheless reflect the domestic political structures of which they are part. Thus variations in the political strength of labour and in the strategic and institutional capabilities of governments can be expected to result in differences in the extent to which employment and welfare goals are both pursued and attained under changing international economic conditions.

Some support for this expectation is found in a comparison of the responses by several European countries and the United States to the economic crisis that followed the 1973–74 OPEC oil-price increase and the U.S. response. The Austrian and West German responses are reviewed in some detail. Together with the United States, these countries display a wide range of variation in the political factors to which

differences in response are attributed. The comparison shows that where labour movements are large and cohesive enough to enable parties based on them to control governments for much of the postwar period and to remain a credible alternative to parties controlling governments the rest of the time, employment and welfare were maintained to the greatest extent. In addition, the analysis shows that the strategic and institutional capabilities of labour-supported governments were not only important in translating that labour strength into effective policy, but that effective policy was essential to preserving that strength. It suggests, however, that the capabilities that made effective policy possible under economic conditions prevailing between the first oil shock and the end of the decade may no longer suffice under the economic conditions shaped by current U.S. policy.

The argument that has just been sketched can be viewed as a set of hypotheses. To provide anything approaching an adequate test of the hypotheses would require a vastly more extensive discussion than can be attempted here. Accordingly, this paper is no more than an effort to flesh the hypotheses out more fully, drawing on research bearing on selected portions of the argument to illustrate the hypotheses and perhaps establish their plausibility. The main body of the paper is organized in three parts. The first reviews some evidence on the relationship between the political strength of labour and variations in economic policy and performance. The second briefly surveys the evolution of U.S. economic policy and its implications for policy in other countries over the postwar period. The third describes economic policy in some of the other countries, particularly since the first oil-price shock. In the light of the preceding discussion, the paper concludes by briefly considering the conditions under which full employment and a welfare state may be combined with participation in an open, capitalist economy in the coming years.

The Political Basis for Full Employment and the Welfare State

Our argument rests on the proposition that the political strength of organized labour is the single most important political factor affecting the extent to which governments approximate full employment and provide welfare through transfers and collective services. This is not to suggest that the political support labour provides for those goals is sufficient to guarantee their attainment. The extent to which the goals are attained depends, as well, on the ability of the governments based on labour support to devise strategies capable of achieving these goals, and on institutional arrangements that make available the instruments needed to implement the strategies. The strategic and institutional capabilities that are required depend, in turn, on the specific situations in

which the goals are pursued and the distinctive policy problems the situations define for different countries at different times.

Given the interdependence among countries participating in an open, international, capitalist economy, one of the most important factors defining the situation in which any government pursues employment and welfare goals is the policies pursued by other governments. A government's ability to achieve those goals depends in good part on how much its efforts are facilitated or inhibited by the policies pursued by other governments. Insofar as this depends on the extent to which the other governments also pursue employment and welfare goals, the distribution of differences in labour's political strength among countries with varying weight in the international economy is likely to have important effects on the extent to which those goals can be attained in countries where labour's political strength provides the political basis for pursuing them. Thus we suggest that differences in labour's political strength among different countries decisively affect not only the domestic political basis for the pursuit of employment and welfare goals, but also the international economic environment conditioning the extent to which the goals can be attained.

Labour and the Political Economy: Some Comparative Evidence

Everything we know about unions' organizational interests, ideological orientations and declared positions leads us to expect labour movements to provide strong political support for full employment and the welfare state. Labour movements' stake in full employment stems from its bearing on the distribution of power between employers and employees. As Balogh sums it up, full employment "alters the way of life, the relationship between classes [and] balance of forces in the economy . . . [and] is the greatest engine for the attainment by all of human dignity and greater equality." The logic of employers' corresponding stake in at least some unemployment, as the London *Times* once put it, "is that it maintains the authority of master over man." Labour movements' stake in the welfare state also derives from its implications for the distribution of power: it diminishes employees' dependence on specific employers by providing access to resources on the basis of social rights, rather than by way of the wages and fringe benefits that go with particular jobs. While this logic does not operate with equal strength in all unions in all countries at all times, it appears to underlie the positions taken by most labour movements in most advanced capitalist societies during the postwar period.[1]

To the extent that labour movements have assigned high priority to full employment and the welfare state, their organizational resources have provided the most important source of political support for the pursuit of

those goals. This is the conclusion pointed to by a large body of comparative studies, the most important of which we briefly review here. Most of the studies consist of cross-national analyses of the relationship between measures of labour-movement strength and measures of policy outcomes in which labour can be said to have a stake. These outcomes typically have to do with levels of employment and of the transfer payments and collective services comprising the welfare state.

That labour-movement strength is associated with relatively low levels of unemployment is shown in a study by Cameron of 18 OECD countries.[2] Cameron conceives of labour strength in terms of the organizational scope and structure of unions in the market arena and the political strength of Left parties in the state arena.

Five characteristics of "the organization and locus of activity" of unions are used as indicators of their power in the market arena:

- the proportion of the labour force that belongs to unions;
- the degree of organizational concentration at the confederation level, ranging from unity to division along partisan or occupational lines;
- the degree of centralization in collective bargaining, ranging from control by national confederations to completely autonomous local bargaining;
- the scope of collective bargaining, ranging from economy-wide bargaining to restricted local bargaining; and
- the extent of worker participation in enterprise decisions, ranging from joint determination of investment to complete exclusion from managerial prerogatives.

The first indicator is simply average union membership as a percentage of the labour force from 1965 to 1980. The others are scores constructed on the basis of data relating to the respective characteristics; these scores can, of course, be interpreted in varying ways. The first three scores are combined to form a single indicator of organizational power by multiplying the sum of organizational unity and confederation collective bargaining scores by the percentage of union membership.

The political strength of Left parties is measured by the proportion of cabinet seats held by the parties formally or informally associated with unions (those designated as labour, social democratic, socialist, or communist) over the period from 1965 to 1981. The fact that in the United States there is no Left party, as defined, obviates the difficulty that would otherwise be posed by the fact that that country does not have cabinet government.

As we should expect from everything we know about the political mobilization function performed by unions, their organizational strength in the market arena is translated into the associated parties' strength in the political arena. There is a very strong relationship ($r = +0.83$) between the measure of Left-party control of government

and the measure of labour's organizational power in the market arena. Moreover, where the structure and scope of labour organization in the market provides the most power resources for Left parties, such parties control the government most of the time. Ranked on the basis of the percentage of cabinet positions such parties held in 1965 to 1981, a span including periods in which they were in opposition or participated in coalition governments, as well as in exclusive control of governments, the percentages in the top five countries range from 73 percent in Austria to 61 percent in Finland and Germany.

Political power, in turn, seems to be translated into policy. There is a clear negative association ($r = -0.46$) between Left-party control of government and levels of unemployment. This situation is consistent with the proposition that the degree to which full employment is approximated depends on the strength of the support for that goal provided by political constellations consisting of unions and associated parties, although the simple bivariate relationship does not, by itself, establish its validity.

Some evidence for a similar proposition concerning the welfare state is provided in the preliminary findings of a study by Esping-Andersen and Korpi, that covers the same 18 OECD countries.[3] The study focusses on characteristics of welfare-state institutions that to some degree limit individuals' dependence on participation in that market for access to resources to meet their needs. The institutions perform such a function by distributing access to resources on the basis of social rights rather than on that of market exchange. By providing individuals with some insulation from the compulsions of the labour market, the welfare state can be said to be a mechanism for the "decommodification" of labour and of needs. The study suggests that the degree to which this substitution of "political" for market distribution has occurred is a function, albeit a complex one, of the degree to which labour's "power resources" are mobilized and utilized.

The study suggests various measures of decommodification and related mechanisms for limiting or offsetting market outcomes. Arrangements for income maintenance during sickness, such as the number of days that must elapse before benefits begin, duration of benefits, qualifications and coverage, are used to construct an index of labour decommodification. The index is designed to capture the variation in the extent to which the arrangements permit "workers to immunize themselves from pure market dependence." Two measures of the decommodification of needs are used: the GDP shares of total public non-military consumption and of social security expenditures, although the degree to which the two measures dissociate access to resources from market participation differs considerably. Fiscal equalization — that is, reducing market-generated differences in access to resources — is measured by the ratio of the difference between taxes paid by units with double the

average and those with average production-worker wages to average production-worker wages. The ratio of means-tested public assistance, or "poor relief," to total social expenditures is used as a measure of the extent to which income maintenance is treated as an unconditional right of citizenship. Finally, the ratio of private to public pensions, whether directly provided or mandated, is taken as another measure of the relative importance of market and politics in defining access to resources.

Variations in the substitution of political for market distribution are related to working-class power resources in both the market and state arenas in ways similar to, but slightly different from, those in the Cameron study. Labour's organizational power in the market is indicated simply by the proportion of union members in the labour force, with no attempt to capture structural variations. As far as the state arena is concerned, more of the complexity is captured in two ways. One is by weighing the difference between Left and Right parties' shares of cabinet positions according to their respective shares of parliamentary seats; and the other is by indicating the proportion of seats held by the single largest party on each side of the Left-Right spectrum. These measures are designed to be sensitive to differences in political-system characteristics (such as electoral institutions and party systems) that affect the extent to which given levels of electoral support are translatable into influence over policy.

The relationships are reported in two ways. The first is simply in terms of high, medium and low values for the respective variables. The second consists of a series of correlations between pairs of variables. Both show fairly clear, though complex and varying, relationships between labour strength and the extent to which political distribution modifies market distribution. Together, the two studies offer some support for the proposition that variations in the approximation to full employment and expansion of the welfare state are a function of differences in labour-movement political power.

The proposition receives somewhat stronger support from a study by Lange and Garrett. This study focusses more narrowly on the relationship between labour power in the political economy and economic performance subsequent to the first oil shock in 15 OECD countries (rather than in the 18 included in the other two studies).[4] Its point of departure is a critique of Olson's well-known recent work on the effects of organization by groups of economic actors on economic growth.[5] Olson maintains that the logic of collective action drives such organizations to pursue distributive strategies aimed at improving their members' relative share of the social product by modifying the operation of markets. As such interest groups proliferate over time, the cumulative effect of such strategies is to impair the operation of markets increasingly and thereby retard growth. However, when organizations become so encom-

passing that their members' interests are perceptibly injured by the retardation of growth, they acquire an incentive to switch to a collective-gain strategy aimed at increasing the total output available for distribution. Applied to unions, the argument is that their efforts to increase the wages of their own members impose significant burdens on growth unless they are so encompassing that they are induced to pursue a collective-gain strategy of wage restraint aimed at enlarging the output on which their members' jobs and income depend.

To Lange and Garrett, the basic flaw in Olson's argument is that it treats unions' strategic choices in isolation from politics. While it may be rational for unions to engage in wage restraint in order to foster growth, unions that adopt this policy run the risk that the wages foregone will not be translated into growth that their members will share in proportions at least as high as their current share, by investment that is both efficient and domestic. This risk is inherent in the fact that capital, rather than labour, controls the disposition of the surplus.[6] Short of gaining control of the surplus, unions can only have some assurance that wage restraint will yield the expected payoff if governments pursue policies capable of influencing investment decisions and hence employment and income. To the extent that the risk is reduced by these policies, it becomes rational to engage in wage restraint. The political conditions under which governments pursue such policies, which Olson fails to consider, thus assume central importance.

Lange and Garrett advance the hypothesis that there are two principal political conditions under which it becomes rational for unions to adopt a collective-gain strategy: the presence of a Left party closely linked to the union movement that has been sufficiently strong for sufficiently long to "influence the institutional structures, personnel and political culture which affect the nature of the state's intervention into the political economy"; and control of the government by such a party at the time that unions make their strategic choice. While this is essentially the argument advanced in the other studies, the Lange and Garrett study goes beyond them by testing the hypothesis more effectively than is possible on the basis of the bivariate analyses on which the others rely. Lange and Garrett do this by drawing on some recent work in multivariate analysis to construct a model that makes it possible to analyze the impact of the interaction of organizational and political power on economic performance. The basic idea of the interactive models is that the effects on a dependent variable of the interaction of two causal variables that are not independent of each other (as required in orthodox regression analysis) can be analyzed by calculating the impact of a change in each of the causal variables for any assigned value of the other. In other words, the impact of each is conditional on the value of the other.

To enhance comparability with earlier studies, the measures for independent and dependent variables used are similar to, or derived from,

those used in earlier studies. The measure for organizational power is an index combining with unionization three, rather than two, of Cameron's organizational characteristics scores. Two measures of labour political power, corresponding to the hypothesized conditions, are used. One is the Left parties' average share of the vote from 1960 to 1980, a measure used to capture labour's long-term "structural strength" in the electorate. The other is Left party average share of cabinet seats from 1974 to 1980, a measure used to capture the political power to control policy in the period in which economic performance is to be explained.

Performance in that period is compared with performance in the preceding period, from 1960 to 1973, on three dimensions: unemployment, growth and an index of "well-being" constructed by a combination of unemployment and growth. On each dimension, the measure used is the difference between averages during the two periods. Variations in change rather than in absolute levels are compared in order to screen out the effects of persistent features of economic structure in both periods. This process does not solve the problem entirely because differences in economic structure must affect the impact of the oil crisis and hence the ease with which performance can be maintained, but it is an improvement over comparison in absolute terms. Long periods are used to minimize the effects of variations in timing of cyclical fluctuations and of the impact of the oil shock among the countries.

The results confirm the general hypothesis and, with minor exception, more of the variation is explained by interactive multivariate models than by bivariate or additive models. The combined effect of interaction between the two independent variables at different values of each is associated with change not only in the magnitude of the dependent variables, but also in the direction of change in those variables. When the level of either organizational or political power of labour is high, an increase in the other is associated with a greater positive effect on the performance measures (i.e., a smaller deterioration in growth, unemployment and the combined measure of performance) than when the level of either is lower. The positive impact of either decreases as the level of the other is reduced, the one eventually becoming negative at very low levels of the other. Thus, where labour is relatively weak electorally, an increment in labour's organizational strength (i.e., the degree to which it is encompassing) is associated with a larger increase in unemployment; and where labour is relatively weak organizationally, an increment in labour's political strength is associated with a larger decrease in growth.

The most important results of the analysis for our purpose are summed up as follows:

> Where the labor movement was both politically and organizationally very strong, growth, unemployment and well-being performances were relatively

better than in all other cases. When labor was either not organized for collective action, or where the risks of pursuing collective gains were great (weak political Left), growth and well-being performance deteriorated. If the Left was weak in politics, governments were less sensitive to labor's distributive demands for full employment.[7]

Strategic and Institutional Capabilities and International Constraints

The studies reviewed would seem to provide sufficient support for the proposition that there is a strong association between labour's political power and levels of unemployment and welfare-state benefits to justify its adoption, at least as a working hypothesis. That proposition, however, telescopes two others that should be distinguished: one concerning relationships between labour political power and the goals governments pursue, and a second concerning relationships between that power and the goals that governments attain. The studies provide direct evidence concerning only the second. That the employment and welfare goals attained by Left governments with strong labour support are goals they pursued because of that support is taken for granted. This assumption is reasonable in view of what is known about unions' positions. On the other hand, the extent to which the goals are attained does not necessarily correspond to the extent to which they are pursued, for governments obviously fail in varying degrees to achieve what they set out to do. For that matter, labour's support for a government does not necessarily mean that the government will put the same priority on employment and welfare goals that labour does. Even if the government does give those goals high priority, labour's political support for their implementation is hardly sufficient to assure their attainment. In addition, the government must obviously be able to devise a strategy capable of attaining these goals, and institutional arrangements must make available to government the instruments required to implement the strategy.

Moreover, the effectiveness of the strategy and instruments in achieving the goals obviously depends on the specific economic situations to which they are applied. Given open economies, these situations are defined, in significant degree, by the interaction of the domestic economy and its international economic environment, each with its specific and changing characteristics. What works in some situations may not work in others, and the required changes in strategy and institutional arrangements are not necessarily forthcoming.[8] In short, the extent to which employment and welfare goals are attained as well as pursued depends on variations in strategic and institutional capabilities relative to economic situations that vary among countries, and over time, as well as on variations in the distribution of political power. Indeed, insofar as such capabilities are lacking, the resulting failure to achieve the goals

can erode the political support they receive and precipitate realignments that create support for alternative sets of goals. If the pursuit of employment and welfare goals depends on labour's political strength, that strength, in turn, depends on the attainment of those goals. This argument will be elaborated only in general terms in the remainder of this part of the paper as we focus on strategic and institutional conditions for approximating full employment. It will be illustrated more concretely in subsequent parts of the paper.

Comparative studies like those reviewed above, which show strong associations between labour's political strength and low unemployment, typically rest on a common assumption concerning the economic strategy by which that economic outcome is brought about. That strategy is essentially the variant of a Keynesian approach according to which demand management alone cannot maintain full employment on a sustainable basis, but can do so in conjunction with an incomes policy (of the consensual bargaining type rather than controls) and other policies to improve the trade-off between unemployment and inflation (or lower the "natural" rate of unemployment, as some would now have it).[9]

The effectiveness of such a strategy is presupposed in the Lange and Garrett study. Their main hypothesis, as we saw, is that wage restraint will be rational for unions under political conditions which minimize the risk that the employment and growth that restraint is designed to permit will not occur. The risk is minimized to the extent that governments are controlled by Left parties based on labour support because such governments are most likely to pursue a strategy capable of maintaining full employment, providing that unions engage in wage restraint. Wage restraint is expected to make possible higher growth and lower levels of unemployment than would be possible if unions pressed wages as much as they could as a result of their strong bargaining power under conditions of full employment. Given wage restraint, it is assumed that there is a mix of policies by which government can ensure the higher growth and lower unemployment that wage restraint permits.

Assuming that monetarists or any others who say that such a strategy cannot work in principle are wrong, this strategy still presents a tall order in practice. Since wage restraint can only be a supplement to, and not a substitute for, demand management, the strategy presupposes a government's ability to exert the requisite degree of control over demand. This ability is essential, not only because the strategy would fail to deliver the growth and employment on which unions' willingness to restrain wages is contingent if there is insufficient demand. It is also essential because the unions' ability to restrain wages is undermined and their internal cohesion threatened if there is excessive demand. The demand-management component of the strategy is accordingly a critical, but difficult, balancing act. It presupposes the capacity of a government to determine the magnitudes and timing of changes in the various

"control variables": that is, the fiscal and monetary magnitudes (including the exchange rate) needed to achieve the changes in the "target variables" required to stabilize aggregate demand (domestic plus foreign) at levels where wage restraint is combined with full employment. This includes the capacity to perceive changes in relationships among the variables resulting from institutional and technological innovation, as well as everything else that defines the specific economic situation at any given time, and to adapt demand management accordingly. It also includes the capacity to facilitate adaptation of supply to changes in the composition of demand by measures for encouraging, and absorbing the social costs of, the mobility of labour and capital from less competitive to more competitive activities; including such measures as manpower and industrial policies and various tax, credit and transfer devices, all of which require some planning and coordination. Such structural or supply-side measures — which are very different from what passes for "supply-side economics" in the United States today — are conceived as reducing the level of unemployment achievable at a given level of aggregate demand.

Assuming that it is possible to overcome the cognitive difficulties of defining, calibrating and combining all these elements of such a strategy coherently and on a continuing basis, the implementation of the strategy presupposes institutional arrangements that permit the various elements to be controlled. Those institutional requirements for incomes policy that have to do with the industrial relations system itself are by definition an ingredient of labour's political strength as conceived in studies like those by Cameron and by Lange and Garrett. Thus those studies define labour's strength in the market arena, which is the source of its political resources, in terms of how encompassing, concentrated and centralized union organization is. These are of course the main organizational characteristics required to enable unions to negotiate and implement national wage agreements with employers and, explicitly or implicitly, with governments. Obviously, such national wage bargaining also implies employer organization with roughly corresponding characteristics. While employer organization has not been studied comparatively as fully as have unions, it is well known that where capital has been faced with strong, centralized labour movements, it has tended to be similarly organized, although the reverse is not necessarily true, as the Japanese case clearly indicates and the German case less strongly confirms.

To take into account only the organizational characteristics of the industrial relations system that facilitate wage restraint, however, is obviously to neglect the organizational factors affecting governments' capacity to implement the other elements of the economic strategy of which wage restraint is only one element. Since wage restraint can only contribute to economic performance in combination with consistent

macroeconomic policies, the extent to which institutional arrangements facilitate such policies is clearly crucial.

The importance of analyzing the organization of all governmental institutions with economic policy functions has been particularly stressed by Scharpf. He suggests four dimensions along which their organizational variation can be conceived. With respect to each of the functions and all of them in combination, decision-making power may be "horizontally more or less concentrated or fragmented, and it may be vertically more or less centralized or decentralized." In addition, decision-making power distributed among different positions in the structure of government may be exercised more or less "unilaterally or multilaterally." Finally, the power may be exercised with "greater or lesser degrees of exclusiveness or inclusiveness" with respect to the range of political and economic actors whose interests must be taken into account, especially parties out of power and the groups associated with them. France and Britain are cited as countries with formal structures of economic policy formation that are "close to the pole of a concentrated, centralized, unilateral and exclusive decision structure, while Switzerland (and to a lesser degree, [West] Germany)" are closer to the opposite pole of a "fragmented, decentralized, multilateral and inclusive" structure.[10]

In general, the United States could be described as even closer to the latter pole. To begin with, authority over fiscal policy (embracing both taxes and expenditures) is clearly fragmented and decentralized in the United States, given its dispersion among the executive, two houses of Congress and committees within the latter, and between the federal government and the states. At the same time, there is so much shared or interdependent authority among these different positions that fiscal policy decision making may be said to be highly multilateral. At the same time weak party organization and penetrability of the decision-making process by interest groups makes it relatively inclusive, although there is a bias to this pluralism that skews it in favour of business interests, reflecting labour's relative political weakness and the consequences that weakness has for lower-income and non-business segments of the population generally.[11] Macroeconomic policy functions are further fragmented by the central bank's relatively high degree of independence from the elected officials among whom fiscal policy authority is dispersed. To all intents and purposes, this fragmentation precludes the coordination of fiscal and monetary policy on which effective macroeconomic policy depends, at least if full employment is the goal. The structure of monetary-policy decision making itself differs markedly from the fiscal policy decision-making structure, however. Thus authority over monetary policy is both highly concentrated and, despite the Federal Reserve system's regional features, fairly centralized, as well as highly exclusive, with only the banking industry enjoying significant access.[12]

The degree of central bank independence from elected officials, whether legislatures and executives are separated, as in the United States, or combined, as in parliamentary systems, would, in fact, seem to be an especially important factor in the capacity of governments to implement economic strategies of different kinds. For a government pursuing virtually any Keynesian strategy, and certainly for one extending beyond demand management to include incomes policy and other policies to improve the unemployment/inflation trade-off, the capacity to coordinate fiscal and monetary policy would appear to be vital. Divided authority over fiscal and monetary policy is thus likely to be a serious obstacle to the pursuit of such a strategy. If a party supported by labour and committed to its employment and welfare goals comes into power where such an obstacle exists, institutional changes to remove that obstacle would accordingly seem to be a condition for implementing the kind of economic strategy required to attain the goals. Failure to remove such an obstacle to a sufficient extent was probably one factor, among many, contributing to the difficulties of successive governments controlled by the British Labour party and, hence, that party's decline. In the countries where labour-supported governments have attained employment and welfare goals most fully, central banks are typically instruments of government policy and enjoy little independence. This situation, however, is also typical in some countries where labour is politically weak, notably France and Japan, and where central banks are parts of financial systems through which governments actively try to influence change in industrial structure.[13]

Central-bank independence need not impair the policy capability of a government whose top priority is price stability, whatever the cost in unemployment. If current monetarist theory were valid, and insofar as an independent central bank follows the theory's prescriptions for price stability, the government's goal might well be attainable despite its lack of formal authority over monetary policy. This could obtain even if fragmented authority over fiscal instruments also denies the government the capability of controlling the use of those instruments in conformity with its goal, as long as restrictive monetary policy can prevail over expansive fiscal policy; this proposition is illustrated by U.S. policy since 1979 and even more from 1981 on.

The possibility of implementing an economic strategy combining demand management with incomes policy thus depends on organizational characteristics of governmental institutions, as well as of industrial relations institutions. The interaction of the organizational characteristics of governmental and non-governmental institutions is bound to affect the kinds of economic strategies that governments can implement in other respects, as well. The point that implementation of different strategies requires appropriate institutional capabilities presumably does not require further illustration. What we must emphasize, in addition, is that the tests to which governments' strategic and institutional

capabilities are put vary not only with the goals they pursue, but also with the changing situations in which they pursue them.

Given the high degree of economic interdependence among countries, a major factor defining the situations confronting economic policy in any one country is the economic policies pursued in all the others. But this interdependence is clearly asymmetrical. The policies pursued in countries with the greatest weight in the international political economy, in economic as well as in political and military terms, obviously define the situations to which economic policy must be addressed in all countries much more than do the policies of countries with less weight. The United States remains the country with by far the greatest relative weight, even if this no longer suffices to make the United States the hegemonic power that it was earlier in the postwar period. Its policies affect those policies which can be pursued in other countries not only by their impact on economic conditions such as relative levels of demand, inflation and interest rates, but also on the norms and facilities (the regimes) governing and supporting international transactions and the ways in which governments may try to influence the transactions to achieve the goals defined by domestic politics.

Although the policies of hegemonic or simply dominant countries can be expected to be less vulnerable to, and less conditioned by, the policies of others, and vice versa, the countries with the greatest weight do not necessarily enjoy unlimited scope for policy choice, while those with the least weight have no scope for choice at all. Thus, as is often pointed out, the stakes that a hegemonic or leading power has in maintaining the regimes it has established may lead it to accept constraints and burdens that others, particularly small powers, may avoid. The small powers may be less inhibited in adopting competitive tactics, such as exchange rate changes, that would be disruptive if adopted by the leading powers precisely because the systemic effects of their adoption by the small powers are minimal. Of course, a redefinition of the dominant country's stakes may lead that country to adopt systemically disruptive strategies, as the United States did in terminating the pegged exchange-rate system in the early 1970s, and as it may be said to be doing in pressing interest rates up in the 1980s.

In general, differences in the definition of economic problems resulting from the different positions that countries occupy in the international political economy may be as much differences in kind as in magnitude. Thus, the problems of macroeconomic policy obviously vary with the size and openness of economies. This fact can be illustrated by differences in the manner in which the domestic structure of production may affect the extent to which demand stimuli can achieve increases in domestic employment. In a large economy in which foreign trade plays a relatively insignificant role, such as the U.S. economy in the earlier postwar period, highly concentrated industries are in a position to respond to such stimuli by increasing prices rather than output unless

countervailing measures are taken. In effect, however, such industries cease to be concentrated to the extent that they operate in markets, at home and abroad, where there is foreign competition. Insofar as that competition minimizes the absorption of demand increases by price increases, the policy task is clearly eased, at least in that respect.

On the other hand, in a relatively open economy, demand stimuli may fail to achieve their intended employment effects to the extent that they are absorbed by increased imports that are not offset by increased exports. A government's ability to influence the extent to which the imports are offset by exports is seriously limited by the fact that the extent to which they are offset depends on the relative growth of demand in other countries, except insofar as increased imports from other countries are translated into increased demand for imports into those countries. Although the extent to which demand stimuli produce employment increases depends heavily on policy choices concerning demand levels made in other countries, it also depends on how well the domestic structure of production is matched to the composition of combined domestic and foreign demand. The less well matched that structure is, the less effective demand stimuli will be in increasing employment unless they are supplemented by other measures to foster change in the domestic structure of production, thereby complicating the policy task.

The pressure on a government to foster such change also varies with its position in the international political economy. The imperative of adapting the composition of activity to overcome structural current balance deficits is likely to be weak in a country that provides the principal reserve currency if other governments and private actors are consequently willing to accumulate its currency. This was the situation in the case of U.S. dollars when U.S. deficits were the principal source of liquidity in the international monetary system. On the other hand, such a country may prove ill equipped to achieve adaptation when the willingness to accumulate its currency reaches its limits, as it eventually did in the dollar case in the early 1970s. Even then, the power of the United States to alter the monetary regime — and more recently the changes in the domestic political constraints on economic policy — enabled it to alter the nature of the imperative of adaptation if not to eliminate it entirely.

In a country with a smaller economy that is more dependent on international transactions, macroeconomic options can be expected to be more strongly constrained by what other governments (and transnational enterprises) do and more highly subject to the imperative of adaptation. On the other hand, the government in such a country may be less likely to need instruments to foster change in its production structure to maintain external equilibrium insofar as its economic development has been persistently subject to international competition, so that adaptation has become institutionalized.

This is evidently the situation in some of the small advanced capitalist

societies in Europe with highly open economies that are particularly subject to external constraints. These societies also tend to be the countries in which labour's political strength is greatest, such as Sweden, Norway and Austria. Capitalist firms, which continue to account for the bulk of production in these economies, have developed comparably encompassing and centralized organizations. Aware of the vulnerability of their open economies and of common stakes they consequently have in avoiding conflict without necessarily having identical interests, labour and capital in these countries have built institutionalized mechanisms for managing conflict over wages and, implicitly or explicitly, over broader economic policy issues. Governments often take part, informally or formally and in varying degrees, in these mechanisms which are conventionally designated as "corporatist" or "neo-corporatist." These mechanisms have made it possible for structural adaptation to occur on terms embodied in social settlements in which the counterparts of industrial peace and wage regulation have been full employment and the welfare state, and for which labour's political power has been the guarantor. The countries in which this has occurred have been the most successful in combining full employment and the welfare state with participation in the open, capitalist, international economy.[14]

During the 1980s, however, it has proved increasingly difficult to achieve this combination even in these countries. Their strategic and institutional capabilities may no longer suffice to cope with the economic policy problems defined by an international economic environment that has become extremely unfavourable to the attainment of the employment and welfare goals for which there has been exceptionally strong political support in these countries. That environment has still been shaped decisively, though by no means exclusively, by the policies pursued in the United States, where the political support and capacity for such goals have been weaker than in most of the other advanced capitalist societies throughout most of the postwar period, and where they have evidently been weakened further in recent years.

Thus, while the extent to which policies aimed at maintaining a close approximation to full employment are pursued in a particular country may depend on the political strength of labour in that country, that is far from a sufficient condition for the effectiveness of those policies. The policies must add up to a strategy capable of achieving their aim in the specific economic situation that prevails, and the institutional means for deploying and coordinating the instruments required to implement the strategy must be available. However, the strategic and institutional capabilities that may suffice to cope with the policy problems defined by some economic situations may prove inadequate in others. For any country participating in the open, international capitalist economy, the changing situations that define the policy problems confronting it are significantly shaped by the policies pursued in other countries, depend-

ing on the other countries' relative weight in the international economy. Because of the weight of the U.S. economy, U.S. policies have had a decisive impact on the extent to which employment and welfare goals can be attained elsewhere. Accordingly, an understanding of the extent to which those goals have been attained elsewhere and the prospects for attaining them in the future requires some understanding of the factors shaping U.S. policies. Those factors are explored in the next part of this paper.

The Politics of U.S. Economic Policy and the Changing International Political Economy

Given the size of the U.S. economy and the decisive impact that U.S. policies consequently have in defining the situations with which economic policies in other countries must cope, U.S. policies seem bound to have a significant bearing on the extent to which employment and welfare goals can be attained in other countries. The support and capacity for such goals in the United States is relatively weak, however. Organized labour is organizationally and politically weaker than in most of Europe, and there is no labour-based party in the United States at all. This is widely, if not universally, accepted as largely explaining higher unemployment levels and a less generous welfare state in the United States than in most West European countries over the postwar period as a whole.[15] Moreover, the fragmentation of governmental institutions in the United States poses significant obstacles to implementation of an economic strategy capable of achieving such goals. U.S. policies might therefore be expected to make it more difficult to attain employment and welfare goals than it would be in countries where the political basis for such goals is stronger.

U.S. policies could exert such an effect through their impact on the regimes defining the international economic order, as well as on fluctuations and trends in economic activity. Particularly in the early postwar period, when the United States was in the strongest position to shape the rules and facilities governing and supporting international transactions, the strength of political opposition against policies aimed at full employment and the welfare state in the United States could be expected to preclude the creation of a postwar economic order designed to ensure scope for such policies in other countries. Subsequently, demand levels insufficient to approximate full employment in the United States could be expected to make more difficult the macroeconomic policy task of governments pursuing that goal. At the same time, lower welfare benefits in the United States might have inhibited pursuit of a higher "social wage" in other countries unless that wage could be kept from putting those countries' economies at a competitive disadvantage through higher productivity growth or other means of offsetting the costs. In

other words, more ambitious employment and welfare goals could be attainable in other countries only insofar as the political support and capacity for reaching these goals were strong enough to overcome obstacles posed by U.S. policy.

Tendencies consistent with these expectations are, in fact, discernible in the initial U.S. policies for the postwar economic order. Such tendencies are much more strongly evident in the 1980s. In the long intervening period, however, they were much less evident. Indeed, from the late 1940s and for some time thereafter, the United States is credited with having contributed decisively to the establishment and maintenance of the welfare state and to high levels of employment in Western Europe. These effects are attributed to a whole range of policies through which the United States fostered the postwar revival of the European and Japanese economies, including its financing by loans and grants and then by balance of payments deficits, as well as acceptance of trade discrimination against the United States pending the gradual liberalization of trade.[16] For roughly a decade, beginning in the late 1960s, U.S. policies had a less favourable impact on the attainability of employment and welfare goals in the advanced capitalist societies, principally because they increased instability in the international economy by alternately generating strong inflationary and deflationary pressures. So far in the current decade, U.S. policies have much more persistently and severely limited the possibilities of attaining employment and welfare goals pursued earlier abroad as well as at home.

Thus there has been considerable variation in the extent to which the attainment of those goals in other countries has been facilitated or inhibited by U.S. policies. Accordingly, we have to look beyond such persistent features of the domestic political structure as the relative political weakness of labour and the fragmentation of governmental institutions, which suggest that U.S. policies would consistently limit the possibilities of achieving employment and welfare goals elsewhere, in order to understand why the policies have apparently not had that effect. When we consider the other kinds of factors to which our previous discussion points, two aspects of the situations defining the policy problems confronting successive administrations seem to be particularly important. One is the global rivalry between the United States and the Soviet Union, and the demands on U.S. resources which that rivalry has been perceived as making. The other is the dynamics of party competition in the electoral arena and the demands for economic performance it has been perceived as posing. The course of economic policy can be largely understood in terms of successive administrations' efforts to resolve tensions between these two sets of demands, within the parameters defined by the domestic political structure's persistent features, as those tensions have varied with both short-run and long-run changes in the U.S. position in the international political economy.

Since we cannot spell this argument out in detail, we can only try to illustrate it by briefly reviewing some critical phases and turning points in postwar U.S. economic policy.

Shaping the Postwar Economic Order

The end of World War II brought with it far-reaching changes in the political structure of the international economy, as well as in many of the countries participating in that economy, but not in the two that emerged from the war as the most powerful, the United States and the Soviet Union. The geopolitical distribution of power that determined the outcome of the ordeal by fire also resulted in a political segmentation of the world economy. Each of the two superpowers dominated a segment, the "First" and "Second Worlds," respectively, as they were dubbed in the language of development theories. The "Third World," in which all the other countries were rather implausibly lumped together, was partially integrated in the international economic system of which the First World was the core, but it also became an arena of strategic competition between the superpowers. Each of the two superpowers decisively influenced the segments they dominated, though with differences in kind and degree reflecting their very different political structures, as well as the conflictual relationship between them.

The process by which the United States shaped the political structure of the international economy outside the segment dominated by the Soviet Union occurred in two stages. In the first stage, the main thrust of U.S. policy was to create an environment consistent with the politically dominant view of the requirements of American capitalism. These were a liberal international economic order that ensured the free movement of goods and capital, restricted as little as possible by state intervention in pursuit of employment and welfare both at home and abroad. In both contexts the thrust was largely successful. Domestically, efforts to go beyond the New Deal toward a more comprehensive state role in assuring employment and welfare were blocked. Internationally, proposals for monetary and trade regimes managed by autonomous international institutions equipped to assure national governments ample scope for pursuit of employment and welfare were foreclosed in favour of regimes managed by institutions dominated by the United States and designed to allow national governments much less scope for safeguarding employment and welfare.

In the second stage, which lasted roughly a decade starting in 1947, the basic aims of U.S. policy remained the same, but U.S. strategy was shifted from immediate to gradual implementation of the monetary and trade regimes established in the first stage. It was soon clear that these regimes could not be put into operation before the grossly damaged economies of Europe and Japan were reconstructed without enormous

social costs that were likely to precipitate political instability. This situation was perceived as opening opportunities for extension of Soviet influence beyond the regions where it was being consolidated. As the magnitude of the reconstruction task and the geopolitical stakes involved became apparent, U.S. policy shifted to ensuring the economic basis for social and political stability in Europe and Japan. It did so in the various ways cited earlier, and which have been credited with underpinning efforts by European governments to attain full employment and build welfare states.

The shift in U.S. foreign economic policy was thus part of a redefinition of its broad international policy goals, in response to the sharpening geopolitical rivalry between it and the Soviet Union. These goals, particularly in view of the ideological terms in which they were cast, made it politically possible to qualify the strongly liberal thrust of the initial U.S. goals for the postwar international economic order. They also made it possible to tap resources for direct U.S. support of active state intervention in the revival of the war-devastated economies that had not been available for support of such intervention through international regimes in the first stage. The differences between regimes designed to provide such support and those established in the first stage can be illustrated by comparing the proposals advanced by the United States and Great Britain in the negotiations over postwar monetary arrangements that culminated in the Bretton Woods Agreement. In significant respects, we suggest, the differences in the proposals reflect the contrasting structures of politics in the two countries. A brief review of the political sources of support for the different concepts of what postwar monetary arrangements should be enables us to identify more fully the persistent features of the U.S. political structure that seem most important in shaping U.S. economic policy.

The U.S. proposal was prepared by a Treasury official with Keynesian convictions, Harry Dexter White, and the British proposal by none other than John Maynard Keynes himself.[17] In addition to the fundamental theoretical point of departure which they had in common, the two men shared the widespread conviction that the currency instability and trade restrictions that had accompanied economic nationalism in the interwar period contributed heavily to depression, fascism and war. To avert a return to interwar economic nationalism, they agreed it was necessary to establish multilateral arrangements and an alternative to gold that would provide the monetary basis for a liberal trading system without a deflationary bias. Both men therefore proposed new international institutions to manage a system of multilateral settlements. This system would cushion temporary disequilibria so as to provide time for adjustment without resort to unemployment, exchange-rate changes or restrictions on foreign transactions, except under conditions specified in the rules administered by the institutions. However, the kinds of institution and

the rules that they were to administer, as embodied in the two proposals, implied large differences in the extent of the cushion to be provided and hence in the scope for national economic policies for safeguarding employment.

Keynes's scheme had a much more expansionary bias. It would endow the new institution, called a "Clearing Union," with reserves denominated in a new unit of account, called "bancor" — in effect, a new international currency that replaced national currencies and gold — in an aggregate amount large enough for all settlements to take place in terms of bancor within an accounting system administered by the Union, and within which total debits would necessarily equal total credits. National currencies would be expressed in terms of the unit at rates that could fluctuate by up to 5 percent around fixed parities. Member countries would have automatic access to this means of settlement, up to half of quotas proportional to their share of trade, and access subject to progressively more stringent conditions beyond that limit. But the Union could expand the aggregate amount, and hence the amount of settlements corresponding to member countries' quotas, as required to accommodate a volume of trade consistent with full employment in all the member countries, or at least all which sought that goal. The burden of adjustment would fall on creditor countries required to accept settlements in the new unit, as well as on debtor countries seeking to make settlements in that unit. In short, a country would be protected against having to cause unemployment to rise because one or more of its trading partners might choose to resort to unemployment for one reason or another.

White's proposal had a much less expansionary bias, not so much because of his economic convictions as because of his understanding of what was politically possible. The institution to be created, called a "Stabilization Fund," would be endowed with reserves in the form of national currencies, securities or gold rather than of a new currency. These reserves, contributed by members in proportion to their trade shares, in a much smaller aggregate amount, would be far from sufficient to cover all settlements. They would thus be only a supplementary source to which members could turn to cover temporary payments deficits. But aggregate deficits toward any country would not be permitted to exceed that country's quota unless the country was willing to enlarge its contribution, thereby enabling creditor countries to put the burden of adjustment on the debtors, by such means as reducing demand. The Fund could call on a creditor to reduce its surpluses, by such means as expanding demand, and ration its currency if the Fund's holdings of the currency ran down. While members would be entitled to draw on the pool of reserves within these limits and the limits of their own quotas — all of which were much smaller than in the Clearing Union — the Fund could decide when a country was using too much of

its quota and should take remedial action. In short, under the White proposal, the level and accessibility of liquidity and distribution of adjustment burdens between debtors and creditors gave countries considerably less scope to pursue expansionary policies without being constrained by balance-of-payments requirements than those countries would have had under the Keynes plan.

While the differences between the two proposals reflected the orientations to the postwar international economic order that prevailed in the two countries, the differences in those orientations were even wider than the differences between the proposals. To be sure, there was a wide spectrum of views in each of the countries, but the politically dominant positions, drastically oversimplified, can be contrasted as follows.

In Great Britain, the dominant view was that economic expansion to restore the economy and avoid unemployment in the postwar period must come from stimulation of domestic demand by government policy rather than from trade expansion; state intervention has priority over trade liberalization; trade liberalization can help, but only if it does not limit the scope for expansionary state intervention; the possibility of avoiding the deflationary effects of failure by foreign governments to avoid unemployment is essential to avoiding unemployment at home.[18]

In the United States, the dominant view pointed in the opposite direction: economic expansion to utilize the capacity enlarged during the war and prevent unemployment in the postwar period must come from elimination of barriers to exports rather than from stimulation of domestic demand by government policy; trade liberalization is preferable to state intervention in the domestic economy; high employment through trade expansion is essential to limit state intervention at home and abroad; state intervention abroad must be limited in order to ensure trade expansion.[19]

These differences are certainly traceable, in part, to divergent interests to which the countries' respective positions in the international economy gave rise: the U.S. creditor position and business stakes in penetrating sterling-area markets, and the British debtor position and business (financial as well as industrial) stakes in preserving preferential arrangements in the sterling area. But they also reflected fundamental differences in the political basis for full employment and the welfare state in the two countries. During the war and the years immediately following, the political basis for state intervention directed toward those goals was being strengthened in Great Britain and weakened in the United States. Visions of a postwar world where government policy would secure those goals were put forward in both countries. But those visions met contrasting fates as a result of shifts in the distribution of political power in opposite directions.

In Great Britain, the vision was articulated most explicitly in two reports prepared by William Beveridge: one on social security, commis-

sioned by the wartime coalition government, and one on full employment, prepared independently. These reports provided a blueprint for a postwar full-employment welfare state, which assigned a large role to the state in managing the economy and making economic security a citizenship right.[20] It was the Beveridge vision, "social democratic" rather than socialist, was that largely implemented by the first majority Labour government which was swept into office in 1945.

That political outcome marked a further shift in the distribution of political power toward labour which had begun during the war. The union-based Labour Party joined a wartime coalition government, and the leaders of the Trades Union Congress (TUC) took on a major role in managing the war economy. Wartime cooperation between labour and Great Britain's traditional political and economic élites that formed the core of the Conservative Party was based on what Samuel Beer refers to as a "social contract."[21] Its terms precluded a return to interwar economic and social conditions and made a commitment to guarantee full employment and social security after the war. Nevertheless, the Conservatives' ambiguous reception of the Beveridge reports, which owed much to TUC leadership support, suggested that fulfillment of the wartime social contract was contingent on Labour's 1945 victory.

That victory was the culmination of a half-century process by which the union-based party became one of the two major parties, a process facilitated by many factors. Among these factors were the steady reduction of the agricultural population and the growth of trade unions accompanying the long process of industrialization; the weakness of cultural cleavages cutting across class lines; and the concentration of public authority in the single, elected, national legislature, making capture of that legislature the target around which electoral politics was organized and putting a premium on party cohesion in parliamentary politics.

Although the Labour Party lost office in 1951, not to regain it until 1964, its postwar period in office established full employment and the welfare state as standards against which government performance was measured. The Conservative Party not only accepted those goals in principle, but viewed it as politically imperative to meet those standards in practice. In effect, a rather stringent "unemployment constraint" was defined within which economic policy had to operate. Conservative governments could not risk violating the constraint as long as Labour governments remained an alternative that could credibly claim to satisfy it. Thus the wartime social contract was translated into a postwar settlement established by the postwar Labour government and observed by the three Conservative governments that followed. The constraint was weakened as subsequent cycles of Labour and Conservative governments encountered increasing difficulty in satisfying it, but that development belongs to later history.

In the United States, the most important expressions of a vision

similar to the one that was largely realized in Great Britain were two bills in Congress. The Wagner-Murray-Dingell bill, introduced in 1943, would have extended the New Deal's limited steps toward the welfare state by enacting something like the comprehensive reforms carried out in Great Britain. The Full Employment bill was designed to institutionalize a commitment to full employment similar to that established in Great Britain. The welfare state proposals never got out of committee, and the full employment bill was deprived of its substance before it was enacted in 1946.[22]

That political outcome reflected a shift in the distribution of political power in the opposite direction, toward a constellation of business and conservatives. This shift had been under way since soon after the 1936 election, when the strength of the heterogenous and shifting New Deal coalition formed around Roosevelt's presidency reached its peak, and the "social democratic" thrust of its policies attained its furthest extent. The electoral realignment and mobilization of diverse sources of support that gave that coalition its strength had opened up the possibility of reversing what Burnham describes as the "decomposition" of American political parties.[23] This process, which Burnham dates from the late 19th century, blocked the development of national parties capable of overcoming the fragmentation of public authority resulting from the division of power among the national executive and bicameral legislature and reinforced by its decentralization among the states, giving the United States a state structure that has been described as a "polity without sovereignty."

While the organization of electoral politics around fragmented and decentralized public authority facilitated party decomposition, it was powerfully driven by other factors. Among them was the heavy legacy of slavery's unique role in American political development, embodied in the organization of the Democratic party in the South (and in Congress) around the preservation of black disfranchisement and white demobilization; inhibitions on party organization and electoral participation elsewhere; the ethnic divisions and repressive actions that frustrated attempts to unionize workers outside narrow craft boundaries; and the consequent lack of a significant alternative to business sources of support for political organization.[24]

It was only under the New Deal that a modern labour movement embracing mass-production workers could begin to develop. Neither then nor since, however, did that movement reach proportions sufficient to transform the Democratic party into a national party capable of overcoming the barriers to "domestic sovereignty" created by the U.S. state structure and serving as an "instrument of collective social action."[25] The other obstacles to transforming the Democratic party into such an instrument also remained intact. Thus the components of the New Deal coalition that had given it whatever social democratic

thrust it possessed lacked sufficient strength to be combined into a sustainable political basis for full employment and an expanded welfare state after the end of World War II. Instead, Congress came to be dominated by a conservative coalition of Republicans and Southern Democrats, and the management of the war economy was in the hands of business leaders.[26] This shift in the distribution of power continued with the Republican capture of Congress in 1946, and while Truman retained the presidency for the Democrats, this served mainly to retard the drift of domestic policy to the right.

In this political context, any enlargement of the state's role in the postwar U.S. economy was ruled out. To be sure, business views of the state's economic role were diverse, ranging from support of extreme *laissez faire* for business, combined with repression of unions, to Keynesian stabilization of demand, combined with joint regulation of industrial relations by management and unions. But both the segment of business toward the Keynesian end of the spectrum and organized labour were too limited in their scope to provide the basis for a political coalition that could define the postwar settlement in the United States. Insofar as there was a postwar settlement in the United States, it has been argued, it took place not at the level of public policy, but in a portion of the private sector, where unions and management in the newly organized mass production industries agreed on the need for wages to keep pace with productivity to ensure demand for rising output.[27]

Coalitions supporting full employment and the welfare state, in which labour has been a significant component, have temporarily gained sufficient power to shift policy toward those goals during the subsequent Democratic administrations. But labour has never been able to provide the political resources with which to transform the coalitions into a durable, cohesive, party organization capable of providing sustained support for those goals, not to speak of devising strategies and creating the institutional means capable of approaching those goals persistently. This, too, is part of subsequent history.

Thus differences in the extent to which these fundamental features of British and U.S. politics provided support for full employment and the welfare state as World War II drew to a close can be seen as a major source of the differences in the two countries' designs for the postwar monetary system. Given the overwhelming superiority of U.S. bargaining power, it was to be expected that the compromise eventually worked out at the Bretton Woods conference was much closer to White's plan than to Keynes's. While even this compromise went too far for many American conservatives and was opposed by New York's international bankers, Congress ratified it in the flush of enthusiasm for cooperation accompanying the war's end. Opposition in Great Britain came from the Left, which saw the plan as limiting the scope for intervention, and from the Right, which saw it as a threat to Imperial Preference. In any case,

the British held off ratification pending settlement of financing issues relating to trade and reconstruction.[28]

The choice made at Bretton Woods was a fateful one. It ruled out the establishment of an international public institution managing a self-contained global system within which all payments settlements would be made in an international currency, decoupled from any national currency as well as from gold. Instead, it established a system based on the dollar, valued in terms of a fixed dollar price of gold, against which the values of all other currencies were pegged (with the British pound in a supplementary role because of accumulated sterling balances). For the system to function, the United States had to be able and willing to maintain the gold-exchange rate of the dollar and also to supply dollars in the volume required to finance international trade and payments. Thus the system depended on the capacity of U.S. economic policy to reconcile the international and domestic policy goals defined by the American political process consistently with the dollar's key currency role, and on the extent to which the costs of this reconciliation were accepted in that process. This eventually proved to be increasingly difficult, culminating in the Nixon administration's decision to terminate the system.

In the period immediately following the establishment of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank) by the Bretton Woods Agreement, the problems facing U.S. policy were of an entirely different order. Neither the IMF nor the World Bank had anything close to the financial resources needed to cover the enormous trade imbalances between the vastly productive U.S. economy and those of the war-torn countries. The reconstruction of these countries was evidently possible only if the United States supplied directly the resources which the multilateral institutions it had shaped could not supply. Given the size of the U.S. economy, there was no question of its ability to do so; the question was only whether it would be willing. While export-oriented business had a vital stake in an affirmative answer, the political support for such an answer could only be mobilized when the onset of the Cold War redefined the issue as one of containing Soviet expansion. The affirmative answer was provided by the Truman Doctrine and the Marshall Plan, which marked the beginning of the second stage in U.S. strategy for shaping the postwar international political economy.

Transforming the Postwar Economic Order

The period from the end of World War II to the late 1950s may be seen as one in which the United States brought into operation the liberal economic order it sought to establish in the non-communist segment of the world economy. The U.S. administration shifted from its initial effort to

establish that order quickly to an effort to do so gradually. To that end it underwrote the revival of the other industrial economies, which was a condition for the political viability of their participation in the new order. The period from the late 1950s to the early 1970s may be seen as one in which the United States tried to live within the rules of the order it had succeeded in establishing, but which it found increasingly difficult and ended up by unilaterally changing the rules. To be sure, this is literally true only with respect to the rules of the monetary regime. But "the centrality of the international monetary system for overall international economic relations," as one set of authors put it, "provides a sound reason for concentrating our attention there."[29]

In this section, we review briefly the efforts of successive administrations to pursue economic policies capable of reconciling the international and domestic goals for which they sought to mobilize political support while preserving the role assigned to the dollar by the Bretton Woods rules, and finally deciding during the Nixon administration, to abandon such efforts. This was a critical juncture in the development of the international political economy. We shall suggest, however, that the Vietnam War was the catalytic element in the process leading to this juncture, the political form it took, and its consequences for attaining employment and welfare goals both in the United States and in other countries, particularly because of its effects on the political basis for those goals in the United States.

The Bretton Woods system came into essentially full operation when the long-postponed convertibility went into effect in 1958. This change was accompanied by a sharp acceleration in the outflow of gold from the United States, which pointed to the vulnerability of a system that depended on the United States to supply dollars in sufficient volume to finance expanding trade, while at the same time maintaining the gold exchange rate of the dollar.[30] Since the system was set up, fundamental changes had taken place in the relationship between the United States and foreign economies, of wartime allies and enemies alike, whose reconstruction U.S. policy had been designed to support. The changes marked the policy's success, for the enormous discrepancy between the productive capacity of the U.S. economy and that of the other countries that had motivated it had been significantly reduced. Yet the overall U.S. balance-of-payments deficits that had financed reconstruction persisted, reflecting other dimensions of U.S. global strategy in the form of military and aid expenditures, as well as growing investment abroad, while the increasing competitiveness of other economies was reflected in the changing composition of the trade balance, which, however, did not go into deficit until 1971.[31]

While the deficits continued to finance expanding trade, foreign official and private holders of dollars were becoming less willing to go on increasing the large holdings already accumulated, which far exceeded

uncommitted U.S. gold reserves. In part, this may have been the result of a declining need for adding to official reserves by further accumulation of dollars, but it also reflected growing doubts about U.S. ability to maintain the dollar's exchange rate. Continued deficits implied a continued diminution of U.S. gold reserves, and hence of the ability of the United States to convert dollars to gold at the established rate. Eventually, it seemed, either the rate or gold convertibility, or possibly both, would have to go.

If continued deficits indicated a "fundamental disequilibrium" in an ordinary IMF member's external economic relations, exchange rate adjustment, which meant devaluation if payments deficits were chronic, was an available, though little used, remedy. But the United States was not an ordinary member; it was the supplier of the reserve currency, so that devaluation would reduce the value of other countries' reserves, as well as their competitiveness. Alternatively, a reduction in U.S. deficits could stem the gold drain. This alternative raised the question of how such a reduction could be accomplished. But regardless of the answer, it could prevent the growth of liquidity from keeping pace with the growing volume of trade. Thus the deficits were a symptom of a new problem, as well as a solution to an old one. The new one, however, did not seem soluble without recreating the old one unless the dependence of the international monetary system on the dollar were reduced or, ultimately, eliminated. The question, then, was what would replace that dependence.[32]

The extent to which the level of U.S. gold reserves constrained its economic policy in this period should not be exaggerated. As Odell points out,

> Real American monetary power was declining less than the U.S. share of world reserves. The U.S. capacity to defend convertibility and to influence the monetary policies of other states rested on the U.S. military position, the global size of the American market, and U.S. borrowing capacity, all relative to those of other states, as well as on its reserves.[33]

Over the long run, however, there was evidently no way to avoid a decline in the U.S. share of these other resources as the changes in the relative weight of the U.S. and other economies continued to occur.

It was therefore bound to be increasingly difficult to design an economic strategy capable of meeting the international and domestic goals defined in the U.S. political process consistently with the dollar's role in the Bretton Woods system. How difficult this task would be depended to a large degree on how those goals were defined. The Kennedy and Johnson administrations pursued interventionist goals at home and abroad more actively than did the Eisenhower administration, and the two Democratic administrations developed a much more activist economic strategy to meet those goals while maintaining the dollar's role.

As it turned out, however, the specific expressions of the international and domestic goals were politically incompatible, undermining the political basis for the economic strategy through which the goals were to be reconciled.

The mobilization of discontent over the Eisenhower administration's level of ambition with respect to both international and domestic goals was central to Kennedy's campaign strategy. A "missile gap" was alleged as evidence of failure to keep up with the growth in Soviet military strength, assessed on the basis of demonstrated technological capability and rapid economic growth. The firmer testimony of a renewed rise in unemployment in 1960, following a weak recovery from a postwar peak of 6.8 percent in 1958, plus its concentration in depressed areas, was cited as evidence of economic policy failure. Whatever part foreign policy issues may have played in the Kennedy victory, the Eisenhower administration's unemployment record certainly contributed to that victory, demonstrating an "unemployment constraint" in U.S. politics, even if a weaker one than that which existed in Great Britain and most other European countries. This, at any rate, was the lesson Nixon drew from his narrow defeat in 1960 and applied in his successful bid for re-election 12 years later.[34]

Kennedy promised to "get the country moving again" and to restore both its world leadership and its domestic prosperity. Raising the rate of economic growth would solve all the problems: it would halt the decline in the U.S. economy's position relative to Europe and Japan, thereby remedying the balance-of-payments problem and removing the threat of military inferiority to the Soviet Union, while restoring full employment and addressing emergent problems of poverty, regional decline and structural adjustment. The task Kennedy defined for economic policy was thus an exacting one.

The new administration came closer than any of its predecessors to creating a coherent strategy for coping with that task, and it was the first to adopt an explicitly Keynesian approach. According to the leading Keynesians recruited to develop it, the previous administration's policies had kept the economy below its "potential growth path." It could be brought to its potential and kept there principally by using fiscal policy to ensure sufficient demand, supported by monetary policy and supplemented by other policies to improve the economy's responsiveness to demand and to deal with problems intractable to demand management alone. Fiscal policy had to encourage investment directly (e.g., by investment credits), as well as through demand, while monetary policy had to reinforce fiscal policy by differentiating short-run and long-run interest rates to ease immediate pressures on the dollar and to increase competitiveness over the long run. Manpower policy and wage-price guidelines would both improve the unemployment inflation "trade-off" and ease structural change required to improve competitiveness,

while the balance of payments would also be improved by negotiating reduction of foreign trade barriers. Finally, expenditures on education, income maintenance and regional development would achieve both greater efficiency (e.g., improved "human capital") and justice.[35]

This strategy is much like the variant of Keynesianism implicit in the expectations concerning the relationship between labour's political power and economic performance underlying the studies cited earlier in this paper. To the extent that it could be implemented, it could well reactivate the development of the United States toward a full employment welfare state begun during the New Deal but stalled since. The political basis for implementing the strategy was nevertheless weaker than in countries where such strategies have been implemented. Kennedy's margin of victory was meagre; moreover, it was lower than that of Congressional Democrats, whose organization in Congress continued to be dominated by the Southern Democrats, leaving the conservative coalition intact.[36] This situation was reflected in the policy outcomes that occurred while Kennedy was alive.

The first important fiscal stimulus derived from the strategy was an investment-tax credit enacted in 1962. That credit was preceded by stimuli deriving not from the economic strategy, but from defense budget increases precipitated by the Cuban and Berlin crises. There was little additional fiscal stimulus during the first two years, except from some administrative actions and legislation on job training, area redevelopment and adjustment assistance, which was coupled with authorization to negotiate a new round of tariff reductions. But the scale of the various measures was minimal. Congressional resistance was not the only reason. Macroeconomic stimulus had been inhibited by Treasury and Federal Reserve concern, with which the president concurred, about the balance-of-payments deficit. The other measures could only facilitate a growth process in the context of high demand and over the longer run. Wage-price guidelines did not require Congressional approval, but they were not really put to a test at the prevailing demand level, although their first application produced a dramatic confrontation between the President and the steel industry.[37]

Thus, little happened to trigger growth. When unemployment stopped falling in 1962, a year in which it averaged 5.5 percent, and began to rise toward the end of the year, Kennedy accepted the need for a major fiscal stimulus to bring unemployment down to the "interim full employment" target of 4 percent and to move the economy's performance toward its "potential." The critical issue of the form which the fiscal stimulus should take remained, however: whether it was to be an expenditure increase or a tax cut. Apart from the relative efficiency of alternative combinations, at stake is the size and configuration of the public sector, and hence the allocative and distributive role of the state. Thus, the issue is how much of the flow of funds in the economy is to be channelled

through the budget, subjecting that flow to decisions reflecting the distribution of power which operates through the political process rather than the distribution of power which operates through the market mechanism.

The administration was divided over the issue.

> The administration, or at least many members of it, preferred increasing expenditures to cutting taxes, because they were as interested in changing the allocation of the national income toward a bigger share for government and low-income people as in getting the total income up to a higher level. This was more true of the Galbraith wing . . . than of the more purely Keynesian wing, which included Walter Heller, chairman of the Council of Economic Advisers.[38]

For a time, this was true of President Kennedy himself. "In the summer of 1962, he still believed that there were unmet social needs much more important than the private needs that would be satisfied by tax reduction."[39] It was also true of organized labour, as witnessed by the AFL-CIO's declaration that it had "long urged increased government spending as the best way to create jobs."[40]

But the fiscal stimulus that was proposed and finally enacted took the form of a massive tax cut. It took that form, and took so long from its proposal in late 1962 to its enactment in early 1964, largely because of the fundamental features of the American political system cited earlier. Alluding to some of them, Kennedy declared his envy of the British who, under a Conservative government, "prepared, proposed, passed and put into effect a proportionally larger tax cut than ours, and are getting the benefits from it, while we are still holding hearings."[41] He was referring to the concentration of budgetary authority in whatever leadership could command a House of Commons majority, in contrast to its dispersion among multiple executive and legislative positions in the United States. But these features of United States governmental structure, along with federalism, pose such strong obstacles to an active state role in the economy by virtue of their combination with other features, including the Southern subsystem with its roots in the role of slavery in American political development and the relative political weakness of labour. By blocking the development of cohesive national parties capable of combining fragmented authority, this combination of features has made it difficult to mobilize political support for an active state role in the economy and easy for political opposition to such a role to be effective.[42]

Since all these features of the U.S. political structure were still essentially intact during the Kennedy years, they remained a formidable obstacle to expanding the state's role in steering the economy by Keynesian demand management in any form. And they posed an insuperable obstacle to increasing the state's role in any form that expanded the civilian public sector. The tax-cut variant was the only one that could be

enacted because it was the only one for which it proved possible to mobilize massive business support. Without that support, as Sundquist and others clearly show, there was no way to overcome the opposition in Congress.[43] Thus, the "fiscal revolution" at the core of the Kennedy economic strategy had to be

> tamed in a "conservative" direction by reliance upon tax reduction rather than expenditure increases, by considerable deference to the interests of corporations and wealthy individuals as taxpayers, and by some respect for a budget-balancing rule, however attenuated, in the form of the full-employment budget.[44]

The potential for a stronger political basis for an activist state role in the U.S. economy, including an enlarged civilian public sector, was emerging during the early 1960s. The major new ingredient was the civil rights movement. As its importance grew, the civil rights movement entered into a coalition with the labour movement, particularly in the national legislative arena. While it lasted, this coalition had an important impact on the structure of American politics, providing the political resources that dismantled the Southern subsystem which had had such a disabling impact on the Democratic party. Initially, the civil rights movement forced the issue of racial segregation and repression onto the national agenda. The national AFL-CIO then provided the organizational resources for securing passage of the civil rights legislation that broke apart the institutional structure of the Southern subsystem.[45] Subsequently, the coalition provided the resources for enlarging the electoral constituency for activist economic policy around the issues of employment and poverty. None of this had happened in time to overcome the congressional obstacles to the Kennedy administration's fiscal revolution and to influence the form it took. After Kennedy's death, however, Lyndon Johnson went on to mobilize the potential of the civil rights-labour coalition around pending and new civil rights legislation and a "war on poverty" which had been incubating in his predecessor's administration.

Johnson's own massive electoral victory presented him with an opportunity to combine the civil rights-labour coalition with the large number of liberal Democrats who rode into Congress on his coat-tails into a Democratic party with greater cohesion over domestic policy than it had ever had. The long process of party decomposition might thereby have been reversed and a sustainable political basis for full employment and an expanded welfare state created. But if such an opportunity ever existed, it was destroyed by the Johnson administration's escalation of the Vietnam War, in pursuit of the more ambitious international goals that his predecessor had also set.

The Vietnam War opened up deep fissures in the Democratic party, including the break-up of the civil rights-labour coalition, culminating in

Johnson's withdrawal from candidacy and Humphrey's defeat by Nixon. Organizational changes, as well as the continued division accompanying the McGovern candidacy, ensured the resumption of party decomposition, counteracting the effects that the destruction of the Southern subsystem could have had in finally permitting the Democratic party to become an instrument of "domestic sovereignty." Jimmy Carter's capture of the party's nomination and at least some of his administration's difficulties in governing were further manifestations of that decomposition.[46] Thus instead of being strengthened as it otherwise might have been, the political basis for the kind of economic strategy being built up during the Kennedy-Johnson administrations was weakened by the domestic political impact of the Vietnam War, over the longer run as well as at the time. This had important consequences for the possibility of attaining employment and welfare goals both in the United States and Western Europe.

The immediate effect was to make it impossible to proceed with the Keynesian management of demand at the heart of the strategy. The fiscal policy choices required to take this course could not be made without further undermining the "Great Society" coalition. Adding to the fiscal stimulus provided by the long-delayed tax cut, the acceleration of military expenditures, along with those for the new domestic programs, gave the economy a powerful inflationary impetus. The pressures on the dollar that the strategy had been expected to alleviate were consequently intensified, and the inflationary impetus was spread through the international economy, aggravating the difficulties that other governments experienced in coping with internal sources of inflation.[47] Inflationary financing of the Vietnam War thus had major destabilizing effects, which complicated the tasks of economic policy at home and abroad and hastened the breakdown of the postwar monetary regime.

A long succession of expedients adopted between 1961 and 1969 failed to avert recurrent pressures on the dollar.[48] Several measures aimed at reducing the vulnerability of the dollar and other weak currencies were negotiated with other major countries; they included the London Gold Pool, "swap agreements" among major central banks, "Roosa Bonds," and a "general agreement to borrow." More significant for our purposes was the U.S. initiative in enlarging the IMF's resources through the creation of a new reserve asset in the form of Special Drawing Rights (SDRs). This can be seen as a move, however modest, toward the kind of international currency that Keynes had proposed but that the United States had rejected. It left the dollar as the key currency while providing it with a larger cushion, but it suggested that the choice made in 1944 was a mistake as well as the manner in which it might be rectified. It thus raised the intriguing possibility that the ascendancy of Keynesian policy for the domestic economy could lead to a return to Keynesian policy for the international economy.[49] If there was any possibility for change in

that direction, however, the domestic political effects of the Vietnam war, the very exigencies of which had intensified the search for modifications to the existing system, foreclosed it and laid the basis for change in a sharply contrasting direction.[50]

Those exigencies also led the United States to adopt successively tighter capital controls and, finally, to negotiate agreement on a two-tier gold market: one tier for intergovernmental transactions in which the official price was maintained and one for private transactions in which the attempt to maintain the price was abandoned. This last measure was prompted by renewed speculation against the dollar, which reached a peak in March 1968, bringing the U.S. gold stock down by 23 percent over little more than a year. The speculation was intensified after Great Britain devalued the pound in November 1967, despite several years of U.S. pressure and help to avoid that move and considerable damage to the Labour government's economic policy, and after a large increase in the U.S. balance-of-payments deficit. There was not much left of gold-dollar convertibility after the two-tier market was established, as other governments virtually ceased to make conversions in an effort to keep the exchange-rate system working according to the rules in the absence of any alternative.

The currency crisis of March 1968 brought U.S. policy to a turning point. President Johnson rejected the military's request to send more troops to Vietnam and turned to armistice negotiations, marking the end of the war's escalation. He also accepted reductions in domestic program expenditures as the price for Congressional enactment of an income tax surcharge. Faced with the impossibility of pursuing the international and domestic goals to which he was committed while preserving the role assigned to the dollar by the rules of the international monetary system, he retreated from the goals. Faced with a similar situation some three years later, Nixon made the opposite choice, preferring to force a change in the rules rather than accept the constraints they imposed on U.S. policy as he defined them. We shall sketch only briefly the political developments and economic policies surrounding that choice.

By the time the Nixon administration came into office, the Vietnam boom had been reversed.[51] Following the mid-1968 income tax surcharge and the subsequent tightening of monetary policy, the economy was heading into recession. In 1969, however, unemployment was still declining to 3.5 percent and inflation was increasing 5.4 percent. The administration aimed at gradually reducing inflation while allowing unemployment to rise somewhat, by keeping fiscal and monetary policy restrictive, without any form of incomes policy. The wage-price guidelines, which had been eroded by the Vietnam boom and Johnson's loss of authority, were disavowed on ideological grounds. The strategy was Keynesian, then, but it was a conservative variant relying on demand

management alone. Its effect, particularly through a credit crunch, was to strengthen the recession enough to bring unemployment up to a peak of 6.1 percent at the end of 1970. Inflation responded more slowly, rising along with unemployment to average 5.9 percent in 1970, although it did turn down in the second half of that year.

This bout of stagflation, mild in retrospect, aroused considerable dissatisfaction with the administration's handling of the economy and posed a threat to Nixon's re-election in 1972. Nixon had won in 1968 with only a plurality of the popular vote in a three-way race, barely edging out his Democratic opponent despite the party's disarray, while the Democrats retained their majorities in Congress, into which the Republicans made only minor inroads in 1970. Because of this political weakness and his conviction that Eisenhower's failure to reduce unemployment in 1960 had contributed to his defeat by Kennedy, Nixon was extremely sensitive to the need to avoid the same mistake in 1972. But inflation was still at a much higher level than it had been when fear of reviving it had inhibited Eisenhower, and it might well rise above its early 1970 peak by election time in 1972 if demand were stimulated enough to bring unemployment back down to a level that did not compare unfavourably with its level when Nixon entered office. Demand management alone might not suffice, therefore, to assure Nixon's re-election.

Reintroduction of some form of incomes policy was being advocated from a variety of quarters. The Democratic Congress gave the President authority to impose wage and price controls, putting the onus on him if failure to do so could be blamed for inflation. Supporters urged a controls program, too, as did some corporations seeking help in resisting wage demands, and so did the Federal Reserve chairman whom Nixon had appointed and on whom he had long relied for advice. Some foreign governments and international institutions were also calling for a controls program as a means of curbing inflation in order to cope with renewed pressures on the dollar. Consequently, despite the objections to incomes policy in any form that Nixon and other members of the administration expressed, the administration began to move in that direction. Tentative steps toward tripartite consultation were taken, although the AFL-CIO refused to extend those steps to a review of wage and price decisions, for a Republican administration did not provide the political basis for any approximation to consensual wage regulation, quite apart from the absence of other conditions.

The need for some change in strategy was reinforced and complicated by increasing international constraints.[52] The pressures on the dollar were renewed by a re-emergence of the secular deterioration in the U.S. balance of payments in 1970. That deterioration had been temporarily obscured by the recession; the monetary policy that had contributed to it induced short-term capital inflows, resulting in a $2.7 billion surplus in the official reserves transactions balance in 1969. But that surplus was

turned into a record $9.8 billion deficit in the next year, and grew to nearly $30 billion in 1971, when the first U.S. trade deficit in the century occurred. The relaxation of monetary policy and increase in demand needed to reduce unemployment was evidently impossible to achieve without further growth in the deficits and capital outflows. There was clearly a fundamental disequilibrium between the U.S. and other capitalist economies which made it impossible to maintain existing exchange rates except at the cost of severe deflation and, for Nixon, certain defeat.

A realignment of exchange rates was thus becoming inevitable. The question was how it would be brought about and how it would affect the international monetary system. One approach that had, in effect, been tried was "benign neglect," which gave surplus countries no alternative to accumulating dollars except appreciation of their own currency. This approach had some success. In West Germany, which had already revalued its currency in 1969, the central bank struggled to limit the inflationary impact of massive capital inflows in anticipation of further appreciation, an expectation which proved correct (or self-fulfilling) in May 1971. After buying a billion dollars in 40 minutes in an effort to defend the mark's rate, West Germany decided to let the mark float upward, taking several small-country currencies with it. The resulting depreciation of the dollar's effective (trade-weighted) exchange rate fell short of the amount that was coming to be regarded as necessary, however, particularly since Japanese controls were effective against benign neglect. Another approach was to negotiate a realignment of exchange rates as part of a broad reform of the monetary system, in which SDRs would replace the dollar as the reserve currency and rates would be made more flexible. Conflicting national interests would have made this solution difficult in any case, but the approach was not seriously tried prior to the 1971 crisis, which came to a head with a new run on the dollar in August of that year. At that point Nixon chose coercion in preference to either benign neglect or bargaining.

Introducing his "New Economic Policy" (NEP), Nixon announced his unilateral decision to "suspend temporarily the convertibility of the dollar into gold or other reserve assets, except in amounts and conditions determined to be in the interest of monetary stability and in the best interests of the United States." In addition, a temporary 10 percent tax on imports was imposed, on top of whatever tariffs were applicable; this tax was to be removed when "unfair exchange rates" were ended. These measures were coupled with a 90-day freeze on wages and prices. During this period a more detailed program of controls and proposals for income, excise and business tax cuts would be developed. Thus, about a month after Nixon made his dramatic announcement that he was to visit China, he took another dramatic initiative, combining in one package major reversals in both the foreign and domestic dimensions of the

economic strategy that he had been pursuing. At least as far as the 1972 election was concerned, these initiatives had their intended effects.

In closing the gold window and establishing the import surcharge without consultation or advance warning and in violation of IMF rules, the U.S. administration set out to force the other major financial powers to revalue their currencies against the dollar, as well as to make trade concessions and to bear a larger share of military costs. This move was expected to diminish the constraints imposed on domestic economic policy and the competitive disadvantages imposed on U.S. industry by the way in which monetary and trade arrangements were operating in the context of international political and economic relationships different from those obtaining at the time that the arrangements were made. After four months of floating and complicated negotiations among the U.S. and the other major financial powers, the Smithsonian Agreement established a realignment of rates which was to be achieved by devaluing the dollar against gold and revaluing other leading currencies. A vestige of the Bretton Woods system was thereby restored, but the dollar remained unconvertible, and no procedures were established for maintaining or modifying the new pegged rates.

These and other issues were left to be settled by further negotiations intended to establish a new international regime of stable but flexible rates. Though negotiations began, they broke down under new currency crises which led to a new unilateral devaluation of the dollar in early 1973, and to abandonment of efforts by all the major countries to maintain pegged rates. The last vestige of Bretton Woods was gone. The system of floating rates that replaced it was flexible, but extremely unstable. Whatever possibility there might have been for transforming it into a more stable system of flexible rates managed by some kind of international institution, such as a reformed IMF, was further diminished by the oil crisis of late 1973. But that crisis was itself a function of the economic instability that preceded it, to which Nixon's NEP contributed heavily.

Having shed the obligation to maintain the dollar's exchange rate and established controls against the inflationary consequences of the ensuing devaluation as well as the results of domestic expansion, the Nixon administration proceeded to give the expansion a powerful stimulus.[53] Since the Democratic Congress had criticized the administration for allowing unemployment to remain too high, it agreed to the tax changes proposed to reduce unemployment. The result was a fiscal stimulus even stronger than the one provided during the Vietnam War. Monetary policy was also extremely expansive during 1972. By election time unemployment had fallen from its January level of 5.9 percent to 5.2 percent; inflation also fell from its 1971 average of 4.3 percent to 3.3 percent. While unemployment continued to fall, reaching 4.9 percent in 1973, inflation was already increasing during the second half of 1972; it acceler-

ated rapidly in the next year, reaching 6 percent in the first half of 1973, that is, before the oil crisis. As it turned out, this textbook exercise in the political business cycle stimulated the economy more than necessary to achieve its purpose, and at greater cost in inflation, since the continued divisions within the Democratic party made Nixon's re-election easy. This, however, could not have been anticipated in mid-1971, when the policy decisions had to be made.[54]

Like the inflationary impulse generated by U.S. policy during the Vietnam War, the inflationary impulse generated by the NEP fed into inflationary pressures abroad which were transmitted by the much more massive movements of short-term capital through the rapidly growing private transnational financial system. There was an unprecedented degree of synchronization between the pre-election expansion in the United States and expansion in other major countries, resulting in a world-wide boom. The pressure of this boom on primary commodity supplies drove up their prices. Agricultural prices rose particularly rapidly because of crop failures, depleted grain reserves, and declining growth in yields. When oil prices rose along with those of other commodities, OPEC was put in a position to establish a degree of control over prices and production that had eluded it. Thus, OPEC was able to accelerate its price increases and to maintain them while other commodity prices dropped in the subsequent years.[55]

The oil-price shock added a crucial new element to the problems of economic policy in the oil-importing countries. As in the United States, however, development within those countries and the structure of interdependence among them, including the changes in the international monetary system, were already acting as powerful sources of instability. Ultimately, these destabilizing forces generated an international deflationary dynamic which turned the impact of the oil-price shocks into two successively deeper recessions that brought unemployment to their highest levels since the Great Depression. In order to illustrate these developments, it is necessary to consider the ways in which governments in other countries, as well as in the United States, responded to economic policy problems subsequent to the first oil-price shock. Lange and Garrett's comparative analysis of responses to those problems underlined in general statistical terms the importance of variations in labour's political strength in shaping those responses. More detailed analysis of developments in individual countries is required to understand how the combination of those variations with differences in strategic and institutional capabilities entered into the different economic outcomes. Such an analysis of policy responses in two of the countries, Austria and West Germany, will be offered in the next part of this paper.

That there were different outcomes indicates that interdependence did not eliminate all scope for policy choices reflecting differences in the goals for which there is political support in the different countries. On

the other hand, as we shall see, the increasing difficulty in maintaining full employment, even where the political support for it has been strongest, points to the narrowing scope for choice in an international context decisively shaped by the policies pursued in large countries where the political support for full employment has been relatively weak. While the policies of the largest of these countries, the United States, has probably contributed most to narrowing the scope for choice in other countries, the United States was itself unable to break out of the deflationary dynamic that it had helped to set in motion in response to the first oil-price shock.

The Politics of Alternative Responses to Economic Crisis: Oil-Price Shocks and the Deflationary Dynamic

Most, if not all, observers now seem to agree that the impact on the oil-importing countries of the fourfold increase of OPEC oil prices in 1973–74 was simultaneously inflationary and deflationary. The increase had a direct inflationary effect as it worked through each economy, as Izzo and Spaventi put it, "according to its dependence on imported oil . . . , [to] its structure of production and to the elasticity of nominal incomes with respect to prices."[56] It had a deflationary effect to the extent that the income shifted to the OPEC countries was not returned to the oil-importing countries in the form of demand for exports from, or investment in, those countries. In other words, the difficulty of avoiding simultaneous unemployment and inflation, which governments had already been experiencing to a growing extent, was aggravated by the oil shock.

The dilemma consequently confronting each of the importing countries was compounded by the interdependence among them. To the extent that any country failed to offset the internal deflationary effect of the oil-price shock, that effect was transmitted to others by the resulting decline in its non-oil imports; this consequence, in turn, caused a decline in the others' demand for that country's exports. At the same time, to the extent that any country's attempt to offset the deflationary effect of the oil-price shock was not matched by others, its current balance of payments tended to deteriorate more than that of the others, exposing it to capital flight and downward pressure on its exchange rate. It was precisely to avoid the constraints on offsetting the deflationary effect of the oil-price rise imposed by interdependence that the OECD Secretariat urged the oil-importing countries to agree on how the burden of their aggregate deficit with respect to OPEC should be shared among them; and it was for the same reason that the Secretariat and others subsequently called for the coordination of policies to permit expansion.[57]

The coordinated expansion did not occur, however. Different governments responded differently. Most, having already found it difficult to

achieve low unemployment and low inflation simultaneously, were ill prepared to simultaneously counteract the deflationary and inflationary impacts of the OPEC tax. Instead, the main thrust of their policies tended to be directed at one or the other objective. In the United States and West Germany, the initial responses were contractionary, while in Great Britain, France, Italy, Austria and Sweden they were expansionary.

At the time of the oil crisis, policy in the United States and West Germany was committed to winding down the inflation rates that had reached their highest postwar level up to that point in 1973. The Nixon-Ford administrations were relying on drastically restrictive monetary policy to reverse the powerful inflationary thrust of the boom that had been engineered prior to the 1972 election. The West German government was strenuously resisting the importation of inflation and its transformation into a domestic price-wage spiral. In doing so, it was also relying on very tight monetary policy, for which the central bank was given greater scope by the switch to floating exchange rates. Policy in these two large countries thus added to the deflationary impact of the redistribution of income to OPEC, reinforcing the downswing that was already under way, not only domestically but throughout the OECD area, thereby precipitating the deepest recession up to that point in the postwar period.

Because of the weight of these two major countries, their choices made it very difficult for other countries to implement alternative choices. Most governments that initially tried to offset the deflationary impact by implementing expansionary policies were forced by currency crises to abandon their effort. The same subsequently occurred in the United States when the Carter administration shifted to an expansionary stance while policy was restrictive elsewhere. By the time policy turned expansionary elsewhere, pressure on the dollar had led the Federal Reserve to adopt the extremely tight monetary policy that produced the even deeper recession of the early 1980s. Not all of the governments whose initial responses were expansionary had to abandon those responses, however, at least during the 1970s. The outstanding exception was Austria. That country was more successful in limiting both unemployment and inflation than was any other country. Other nations, namely Norway and Sweden, were as successful in limiting unemployment, but achieved less success with respect to inflation or growth. Yet even Austria was unable to avert a sharp increase in unemployment in the face of the double shocks inflicted by OPEC and the U.S. Federal Reserve at the turn of the decade.[58]

If Austria demonstrates the extent to which it was possible to meet the dual challenge presented by the first oil shock, the deflationary dynamic that has since prevailed would presumably have been weaker to the extent that other countries' responses to it had approximated Austria's. It would presumably have been much weaker to the extent that the U.S.

and West German responses had been similar to Austria's, given the decisive effect that their responses apparently had in setting the dynamic in motion. The question, then, is why the U.S. and West German responses were different from that of Austria. While this simple question admittedly has no simple answer, we shall suggest that a large part of the answer lies in the differences in the political support and capacity for the pursuit and attainment of employment and welfare goals in the three countries.

The argument advanced earlier is that the political strength of labour is the single most important factor in the political basis for employment and welfare goals. Austria is one of the countries in which labour's political strength is greatest; in West Germany it is weaker; and in the United States it is weaker still. If the argument is correct, we should expect the deflationary impact of the oil shock to be resisted more strongly in Austria than in either of the other two countries. But why should Austria be relatively successful in resisting the oil shock, while also succeeding in resisting its inflationary impact? The argument was that labour's political strength was the single most important factor, but not the only one; attainment of the employment and welfare goals depends, as well, on the strategic and institutional capabilities of governments resting on that strength. We should therefore expect the Austrian government to have the strategic and institutional capabilities that enable it to meet the dual challenge posed by the oil-price shock. Whatever those capabilities were in the other two countries, the greater political weakness of labour should mean that those capabilities were not directed toward resisting the oil shock's deflationary impact to the same extent as they were in Austria.

This argument drew its strongest support from a study especially relevant to our question because it analyzes the relationship between variations in labour's strength in the political economy and variations in the deterioration in economic performance, in terms of unemployment and growth, between the periods before and after the first oil-price rise. This study found a strong, but not continuously inverse, relationship between labour strength and deterioration in performance; the relationship was contingent on the interaction between organizational and political components of that strength. Labour strength was greater and deterioration in performance less in Austria than in West Germany. Labour was even weaker in the United States than in West Germany, but the deterioration in performance in the United States was not much greater, although the change in that country was from a lower level of performance than was the change in West Germany. The complexity of the relationship found in the study suggests, in part, why the answer to our question is not simple. Adding to the complexity is the need to take into account strategic and institutional capabilities of governments relative to the specific situations defining the policy problems those govern-

ments face, such as the structural differences affecting the oil shock's impact.

To begin to answer our question, then, it is necessary to look more closely at how the responses were shaped in the United States, West Germany and Austria. Space limits the extent to which a closer examination can be made of these countries and even more of other countries. Given these limits, it is necessary to focus on issues most germane to the possibility of coping with the dual challenge. One of these issues, as indicated above, is "the elasticity of nominal incomes with respect to prices." Since the oil-price increase shifted real income from the oil-importing countries to the OPEC countries, the issue arises of how the "one-time" reduction in real income is distributed within the countries subjected to that reduction.

The distribution between labour and capital is particularly important insofar as it affects investment and hence, growth and employment. If labour, through its organizational power and other features of the wage-determination system, is able to increase its nominal income in step with price increases enough to maintain its real income while a portion of the price increases represents a decline in aggregate real income, its share relative to capital is increased. The decline in capital's share may lead to a decline in investment, followed by declines in growth and employment. The maintenance of investment accordingly depends on whether the real income cut can be distributed so as to maintain the relative shares of labour and capital, assuming that past factor shares corresponded to the required rate of investment. In other words, it depends on whether nominal wage growth can be restrained sufficiently to bring about a cut in real wages consistent with constant shares. Wherever labour has significant organizational power, this restraint depends on whether the conditions for some kind of consensual wage regulation or incomes policy are met. Those conditions, according to the study cited earlier, are most fully met in countries such as in Austria, where labour's political strength is greatest.

Conversely, of course, if the cut in real income is distributed in such a way as to reduce labour's relative share, it may lead to a decline in demand and hence to a reduction in investment, growth and employment by this alternative route. To meet the dual challenge presented by the oil shock, then, governments must try to ensure that the distribution of the resulting reduction in real income is consistent with constant shares, insofar as that is required; and to counteract the effects of any deviations, depending on which direction they take.[59] Thus a decline in the capital share might be offset by profits or payroll tax changes that restored after-tax profits, or the effect on private investment might be offset by public investment. Similarly, the effect on demand of a decline in the labour share might be offset by income tax cuts or expenditure increases. Such actions might well have to be taken as temporary

measures while the economy goes through the process of adjusting to the real-income cut and to changes in relative prices. Since the real-income cut means a decline in aggregate demand, no matter how it is distributed, insofar as it is not offset by increased external demand, measures to restore demand would have to be taken along with whatever measures are taken to "correct" the distribution of the cut. To reconcile the two kinds of measures can be complicated, putting governments' strategic and institutional capabilities to a stringent test. But the goals that governments pursue, particularly the extent to which they resist the oil shock's deflationary impact, can be expected to depend on labour's political strength. We turn to a discussion of how some governments actually responded.

The Austrian Experience

Austria's small, open economy accounts for a little over 1 percent of OECD GNP, while foreign trade accounts for over a third of Austria's GDP. Of the 15 countries whose economic performance between 1960–73 and 1974–80 was compared, Austria was among those whose performance deteriorated least. Its average growth in GDP declined by only 1.8 percentage points, and its average unemployment rate rose by just 0.2 point. Only Norway, with a GDP growth increase of 0.2 percentage point and an increase in unemployment of 0.1 percentage point, did better on both counts. The 2.3 percentage point increase in Austria's inflation rate was higher than only two of the other countries, the Netherlands and West Germany, both of which experienced greater deterioration in GDP growth and unemployment. Thus Austria was exceptionally successful in keeping both unemployment and inflation down in the face of the oil shock's threat to both.[60]

How did Austria accomplish this feat? The answer, according to Scharpf, lies in her choice of an appropriate strategy and the existence of institutional arrangements that make its implementation possible. As Scharpf puts it, Austria adopted a "two-track strategy" designed to cope with the two contrasting impacts of the oil shock. To offset the oil shock's deflationary impact, Austria pursued a combination of fiscal and monetary policies to increase aggregate demand; to offset its inflationary impact, it relied on a "hard-currency" exchange rate policy and an incomes policy.[61] The political basis for this strategy and its apparently successful implementation is sketched in the discussion that follows.

At the time of the oil crisis, the Austrian government was controlled entirely by a social democratic party with a strong base in organized labour.[62] The Austrian Socialist Party is closely linked to the country's single labour confederation, the OeGB, which consists of 16 unions that cover about three-fifths of the labour force. The Socialist Party has been in power, alone or in coalition, for the entire time since 1945, with the

exception of the period between 1966 and 1970. Between 1945 and 1966, it participated in a national coalition with the other major party, the People's Party. The latter is a Christian Democratic party closely linked to organizations of business, professionals and agriculture. The People's Party ruled alone between the breakup of the coalition and the establishment of an exclusively Socialist government in 1970. The Socialists continued to govern alone until 1983, when they formed a coalition government with a small liberal party, the Freedom Party. Austria is thus among the countries in which labour's political strength is greatest.

In response to the oil crisis, the Socialists declared that maintaining full employment continued to be their top priority. They expected to pursue that goal by continuing the "Austro-Keynesian" strategy on which they had long relied.[63] Like all variants of Keynesianism, this strategy made fiscal policy the principal instrument for keeping demand at levels required to maintain full employment. The use of fiscal policy in this way is facilitated by highly concentrated authority over budgetary decisions at the central government level. On the other hand, the impact of fiscal policy has been blunted by the country's federal structure. Accounting for a little less than half of total public expenditure, Austria's federal government has apparently been unable to keep revenue-sensitive state and local government spending from substantially, though not entirely, offsetting its counter-cyclical budget decisions.

This difficulty adds to the importance of the supportive role assigned to monetary policy. Institutionally, the federal government is in a position to assure the performance of that role. The Ministry of Finance directly controls some of the instruments of monetary policy, while the central bank's actions are closely coordinated with government policy, by law and in practice. While the Bretton Woods system was in effect, the central bank's main task was to vary the availability of credit in conformity with macroeconomic policy; it did so principally by controlling the liquidity of credit institutions, relying more on credit rationing than on interest rates in restrictive phases to encourage investment by keeping those rates low. After the Bretton Woods system broke down, Austria sought an alternative way to attain exchange-rate stability. Its method was to tie its exchange rate to a stable foreign currency. Initially this was the basket comprising the European snake, which was dominated by the German mark (DM). Since 1976, with some exceptions, it has tied its currency to the DM alone. The exchange rate thus became the central bank's principal target, which made it necessary to give up the low-interest policy.

This "hard currency option," initially proposed by the OeGB, is regarded as essential to a "virtuous circle" by which inflation can be curbed without resort to demand restriction that sacrifices full employment; and also the capacity utilization that sustains the investment on which productivity and competitiveness depend. As long as inflation

rates in West Germany, Austria's single largest market, are lower than world rates and the DM appreciates against other currencies, carrying the Austrian schilling with it, domestic prices of imports from non-DM areas are kept from rising as much as world market prices. The prices of domestic products subject to competition from imports are thereby curbed, which, in turn, reduces inflationary expectations in the non-tradables sector as well. When imported inflation is minimized in this way, exchange-rate policy is seen as the necessary condition for the other essential ingredient of the strategy: an incomes policy on which the viability of the hard-currency option, in turn, depends.

Incomes policy is relied on in Austria to keep unit labour costs in the tradables sector from rising relative to such costs in Austria's trading partners.[64] As long as currency depreciation is ruled out, profits in the sector will be compressed; this compression will inhibit investment and, hence, the maintenance of sufficient output to sustain external equilibrium over the long run unless the relative rise in costs can be prevented. Given the importance of wage relativities, the degree of wage restraint required in the tradables sector cannot readily be attained unless it is roughly parallelled in the non-tradables sector as well. Wage growth therefore has to be influenced across the board. Insofar as this happens, the hard-currency option can be maintained and inflation curbed, leaving fiscal policy free to keep demand at full-employment levels, thereby closing the virtuous circle.

Incomes policy is built on a complex dual structure of producer-group organizations with deep historical roots.[65] One set of organizations consists of constitutionally prescribed "chambers" of which all persons engaged in the various sectors and occupations into which the economy is divided must be members. The government must consult the chambers, whose officials are elected by the members, on economic and financial legislation and policy, but it is not bound by their views. The other set of organizations consists of voluntary groups, separate from the chambers, of which only the trade unions are important to the incomes-policy mechanism. Although the commerce chamber performs the wage bargaining as well as the representational function for employers, the unions, rather than the labour chamber, conduct wage bargaining on behalf of employees. The labour chamber operates as a research arm and an additional representational instrument of the unions. While they are legally and functionally distinguished, both labour organizations are dominated by Socialists. With the Socialist Party, they form one of the two main "camps" — "red" and "black" — into which Austria has long been politically and culturally divided. The other camp is comprised of the People's Party and the economic interests which it dominates, organized into the chambers of commerce, agriculture and professions.

The formal setting for incomes policy is a "Parity Commission for

Wages and Prices." Set up at union initiative in 1956, it includes government representatives (the federal chancellor plus economic ministers) as well as equal representation of management and labour. Participation is voluntary, decisions must be unanimous, and the government representatives are constitutionally bound to abstain. Wage and price issues are initially handled in separate subcommittees.

Formally, the wage subcommittee only passes on requests by unions to initiate wage negotiations. However, these requests are first screened by the OeGB, which thereby influences the substance, as well as the timing, of demands. The OeGB is an exceptionally centralized confederation, controlling the finances and employing the top staff official of each of the 16 member unions. Confederal and union officials are indirectly elected. Wage demands are thus geared to a view of what the economy requires through informal influence concentrated in a small, relatively insulated circle of leaders. Nevertheless, wages cannot be fully determined centrally in that process. Directly elected works councils at the level of the firm negotiate separate wage agreements that can add to the national agreements, introducing a significant element of "wage drift." These councils include non-union members, but are typically run by local union officials. There are no legal sanctions behind wage restraint, nor do the OeGB and its affiliates risk their authority by trying to determine wages in the face of local organizational and market pressures. In effect, the system is designed to influence the wage level (but not its distribution) as much as possible without rendering the organizational structure of consensual wage bargaining vulnerable to serious rank-and-file disaffection. The expected tensions exist, but they have so far not erupted into the kind of local militancy experienced in other countries.[66]

Price restraint is also limited, but in different ways. It amounts to little more than the exposure of specific price increases to advance discussion of their economic justification. No means exists for preventing increases that may be deemed unjustified other than bad publicity. Foreign competition mediated by the hard-currency policy is the main constraint on prices. Thus incomes policy's basic function is to keep wage rises within the limits on which the survival and growth of firms subject to that constraint depend. It is thus a central element in an overall strategy for managing a small open economy that is in a politically, as well as economically, vulnerable position.

Consensus on the essentials of this survival strategy was forged in the crucible of civil war, fascism and occupation by foreign powers. The red and black camps were literally armed camps during interwar strife that culminated in a fascist seizure of power, followed by annexation to Nazi Germany. The shared experience of concentration camps and the postwar threat of partition by the occupying powers created common stakes in national survival sufficient to outweigh the heritage of class and sectarian conflict and to unite the camps in governing postwar Austria. A

persistent political cleavage structured by the major parties was combined with cooperation on the basis of a political formula assuring "proportionality" throughout the administrative system and embodying an alliance for growth.[67] These features of Austria's postwar settlement have continued, sustaining a so-called "social partnership" on which a formally private incomes policy has been predicated.

Having the power, strategy and institutional capacity to pursue full employment in the face of the oil crisis nevertheless did not guarantee success. Initially, in fact, the strategy did not work as intended.[68] At the time of the first oil-price shock, the Austrian economy was in good shape. A long export-led boom, begun in 1968 and apparently assisted by the success of incomes policy in meeting its first major test, continued without much interruption during the 1971–72 slowdown abroad. Inflationary pressures and international instability prompted a restrictive turn in monetary policy in late 1973, but this movement was quickly reversed in early 1974 as soon as recessionary tendencies were sensed. Fiscal policy had been expansive and continued to be so. However, the magnitude of the recessionary impulse imparted by the oil-price rise and reinforced by the failure of the major countries to adopt offsetting policies was greatly underestimated by Austrian forecasters, as by most others.

The late 1974 forecast was for 4 percent GDP growth and 9.5 percent inflation in 1975, whereas the outcome was a 0.4 percent *decline* in GDP and a somewhat lower inflation rate of 8.4 percent. In the wage-bargaining round then in progress, the scope for increases was gauged on the basis of the erroneous forecast. The resulting average contractual increase in industrial workers' hourly wages was 13.8 percent, to which local bargaining added just under 4 percent. The drop in output, especially for exports (which declined by 5.5 percent) produced a sharp increase in unit labour costs. Gross profit margins fell by 3.3 percent while profits were squeezed especially hard in the tradables sector.

Thus, instead of contributing to Austria's adjustment to the oil-price shock by distributing the resulting real-income cut between capital and labour so as to leave their relative shares roughly unchanged, the incomes-policy mechanism permitted a major shift from capital to labour. What the government did not do in response to this failure of incomes policy was the most important thing that happened next. It did *not* shift to restrictive fiscal and monetary policies in order to press the wage level back down by reducing demand and thereby weaken union bargaining power. The wage explosion was perceived as an "accident" resulting from factors beyond the wage bargainers' control. Once those bargainers recognized what had happened, they were expected to repair the damage themselves. The government could therefore go on doing what it could to maintain employment, on which union participation in incomes policy was predicated.

The forecast was recognized as wrong during the course of the 1975

wage round, and the level of settlements fell by almost half between the first and fourth quarters of that year. It continued to fall steadily over the next four years, accompanied by a slight negative wage drift, except in 1979. As this pattern suggests, and econometric efforts confirm, it is not clear to what extent declining wage rates are attributable to incomes policy rather than to market pressures operating through employer resistance to wage claims. In any case, the gap between wage growth in Austria and in its trading partners was largely, though not entirely, eliminated by 1979. Despite that development, the simultaneous decline in inflation made it possible for real wages to rise between 1974 and 1979.

Over the same period, the effects of fiscal policy were "unambiguously expansive," although policy was turned in a restrictive direction in late 1977. Monetary policy parallelled fiscal policy, accommodating the demand stimulus throughout the period, although, it too, took a restrictive turn in 1977 and, again, in 1979, when rising interest rates abroad forced it to push up domestic interest rates to sustain the exchange rate. The rise in unemployment was effectively limited, rising from 1.3 percent to a peak of 2.1 percent in 1978, and averaging 1.8 during the five-year period in which the 15-country OECD average was 5.2 percent. Over the same period, consumer price increases declined from 8.7 to less than 4 percent in 1979, compared with the OECD average of nearly 10 percent in that year. As the OECD observed, this performance demonstrated that a prolonged bout of unemployment was not the only way to bring down inflationary expectations.[69] After getting off to a bad start, then, Austria's two-track strategy for coping with the dual impact of the oil price seems to have worked rather well.

Of course, unemployment figures must always be put in the context of other labour-market trends.[70] The low increase was certainly helped by a decline in replacements for immigrant workers returning home. But after rising to a peak of 7.5 percent in 1973, the immigrant-worker share of employment only declined to 5.6 percent in 1979, which was still above its 3.6 percent level in 1970. Added to this small dip in net immigration, a 1.8 percent decline in the participation rate from its 1974 peak of 74.1 percent meant that the labour force grew only 2.2 percent by 1979. These factors, plus a previously scheduled 5 percent cut in hours in 1975, helped to limit unemployment growth, even though employment grew by a mere 0.4 percent from the boom year of 1973 to 1979. Relative to West Germany, however, where a much sharper drop in employment in 1975 resulted in a 3.3 percent *decline* of employment over the same period, the Austrian record still seems substantial; it seems even more so when compared to the record of countries like Britain, where much higher unemployment was combined with a decline in employment.

How Austria achieved that record requires further comment. One way was by prevailing on state-owned industrial firms, which accounted for 18 percent of industrial employment, to limit layoffs in 1975 to 1 percent,

despite a large fall in output. During the period of consequent financial losses, state enterprise subsidized employment. Despite a smaller fall in output in private industrial enterprise, it cut employment 6 percent in 1975. Private-sector industrial employment then remained roughly stable, reflecting a strong recovery of industrial production, and hence of productivity, to which fiscal stimulus of domestic demand, as well as the recovery of exports, contributed. But unemployment was chiefly limited through increasing public service-sector employment, which rose by 5 percent in 1975 and by a total of 23 percent from 1975 to 1979.[71]

The fiscal stimulus was also designed to encourage investment, not only indirectly through support for demand and hence capacity utilization, but directly, too, through a panoply of existing and new tax incentives. By 1978, these incentives, it was estimated, added about 6 percent to "effective business profit after taxes." In effect, the tax breaks cushioned the squeeze on profits between the hard-currency policy and slowly declining wage growth, serving as an alternative source of investment finance. The pro-investment bias of fiscal policy, in addition to public investment, maintained Austria's "high (though falling) GNP-shares of gross fixed investment during the 1970s — the highest in Western Europe and much higher than in Germany."[72]

Still, issues arose concerning the tendency of such incentives to encourage investment in currently profitable firms rather than in firms with the potential for future profits. In combination with an undeveloped capital market, such incentives were held to exert a conservative influence on industrial structure. Yet a report to the government pointed out that a major expansion, diversification and rejuvenation of Austrian industry's capital stock was taking place. This meant that at current levels of demand, Austria's industrial competitiveness was improved relative to that of trading partners whose investment was stagnating. Moreover, industry's capacity to respond to increased demand by raising output was also improved. By maintaining demand and investment in the midst of crisis, then, Austria avoided not only demand-constrained unemployment, but also the danger of supply-constrained unemployment, into which demand-constrained unemployment is likely to be turned by stagnant investment.[73]

The growth in "real supply margins" resulting from fiscal stimulus bears on the issue of the growing indebtedness required to finance the stimulus and the longer-run sustainability of the strategy. This issue was raised more frequently as central government budget and current balance deficits grew in the later 1970s. Both deficits were consciously accepted as inherent in the strategy for coping with the initial oil-price rise, but they both grew more rapidly and persistently after the 1976 recovery to levels that were evidently greater than expected. In 1977, the government reacted by shifting to more restrictive monetary and fiscal policies. The impact was soon judged excessive, prompting a return to a

selectively expansionary stance in 1978, favouring investment while remaining restrictive with respect to consumption. The current account deficit, reflecting improved market shares, fell sharply from 6.2 percent of GDP in 1977 to 2.4 percent and 2.5 percent in 1978 and 1979, and the central government-budget deficit fluctuated around a declining trend from its high of 4.6 percent of GDP in 1976. But government debt, especially its external component, and debt-service costs continued to grow, evoking concern that led to resumed efforts to reduce the budget deficit over the medium term.[74]

The report to the government cited above held this concern to be entirely misplaced. It pointed to the capital formation financed by the dual deficits as the source of future surpluses in both the current account and the budget, making the deficits ultimately self-liquidating. This view presupposed sufficient restoration of demand in Austria's trading partners to permit a high degree of utilization of its enlarged capital stock so that deficient external demand would not have to be offset by deficit-financed stimulus of domestic demand to maintain full employment. Since 1979, however, these conditions have not been met. Instead, the second oil shock and a recession deeper than the one following the first created conditions that make it impossible to maintain full employment without further growth in indebtedness and debt-service costs.

The deep international recession of the early 1980s enlarged the external demand deficiency to be compensated. Yet the inhibitions against compensatory macroeconomic policy were also greater. Such a policy in 1981 would have involved increasing central government debt at a time when the debt was already three times as high relative to GDP as it had been in 1974, and when debt service was two-and-a-half times as high. Moreover, international interest rates were much higher in 1981 so that a given increase in the current budget deficit would have meant a larger increase in the structural deficit, narrowing the scope for discretionary budget changes. At the same time, the scope for expansionary monetary policy was limited by the need to keep Austrian interest rates abreast of the much higher international rates if the hard-currency option was to be maintained.

The Austrian government, persuaded by such considerations to adopt a restrictive policy stance prior to the second oil-price shock, retained that stance in 1980 and 1981. But unemployment had also stayed low by international standards, having fallen three years in a row to reach 1.9 percent in 1980 and only rising markedly to 2.4 percent in 1981. When unemployment growth accelerated in 1982, reaching 3.7 percent, the government suspended its effort to consolidate the budget in favour of an expansionary fiscal policy, accompanied by as much relaxation of monetary policy as a downturn in international interest rates permitted. It maintained this stance in 1983, when unemployment reached 4.5 percent, even though the central government deficit rose to 5.5 percent of

GDP. The growing budget deficit was made more acceptable by a drop in the current balance deficit to 2 percent of GDP in 1981 and a shift into a surplus of 1.1 percent in 1982. Yet despite the highest unemployment since the early postwar period, the government felt compelled to switch to a slightly restrictive budget for 1984 in order to slow what it viewed as an alarming increase in interest costs.

Thus, Austria was faced with a new situation in which it was substantially more difficult to pursue the strategy with which it had succeeded in coping with the crisis following the first oil-price shock. As in the previous instance, the policies pursued by the major countries in response to OPEC's "tax increase" aggravated that increase's deflationary effect. This time, however, the effect was not only greater in magnitude but more constraining in kind, primarily because of the peculiar policy mix adopted by the United States. That policy mix placed the whole burden of its restrictive response on monetary policy while pursuing a loose fiscal policy, thus forcing interest rates up to the highest levels in the postwar era (or even "in the Christian era," as claimed by Helmut Schmidt, West German Chancellor at the time) from both the supply and demand sides, and also by refusing to intervene in the foreign-exchange markets to slow the dollar's appreciation. Thus, U.S. policy imposed serious constraints on the scope for expansionary fiscal and monetary policies in other countries, including Austria.[75]

Summing up, the Austrian case shows that there was some scope for national variation in economic policy, enabling different countries to pursue different goals, including full employment, depending on variations in the political support for those goals and provided that appropriate strategies were adopted and that the instruments for implementing them were available. Even where these conditions were met, however, the scope has proved to be significantly limited. Effective as the Austrian economic strategy was in maintaining full employment in the international economic environment between the first and second oil-price shocks, it is proving to be much less effective in the changed economic environment shaped by the combined impact of the second OPEC oil-price shock and the U.S. interest-rate shock.

The West German Experience

Among the 15 countries whose economic performance before and after the first oil-price shock was compared, West Germany is roughly in the middle of the range of variation in change between the two periods. Its average GDP growth in 1973–80 was 2.8 percentage points lower than it was in 1960–73, and unemployment was 2.4 percentage points higher. To be sure, the West German increase in unemployment began from the lowest level in all the countries in the earlier period. In the later period, however, its starting point was higher than that in Austria, Norway and

Sweden. Only its inflation rate deteriorated less than that in any other country, giving it the lowest rate in the later period. In the earlier period, it was not West Germany but the United States and Canada that had the lowest inflation rates (along with the third- and second-highest unemployment rates).[76] If goals could be confidently inferred from outcomes — which they cannot be — there would seem to have been a shift in West German goals toward placing a higher priority on price stability relative to full employment from the early period to the later period.

That such a shift occurred cannot be shown with the evidence at hand, but it is clear that the main thrust of the West German government's response to the first oil-price shock was to counteract its inflationary impact, continuing the strenuous effort to fend off the international inflationary surge in which it had been engaged in 1973. To do so, it relied on the highly restrictive monetary policy adopted by the central bank when its freedom to adopt such a policy was enlarged by the decision to let the mark (DM) float. Fiscal policy was made somewhat more stimulative by a reversal of restrictive measures adopted earlier in 1973 as part of the anti-inflationary effort. It was not (nor was it intended to be) stimulative enough to counteract the deflationary impact of the oil shock or of monetary policy however. Indeed, the task of avoiding unemployment was assigned not to demand management, but to the private parties that negotiated wages.[77]

Such a "reprivatization" of the unemployment risk was a basic element in the essentially monetarist West German economic strategy. It was expected that by keeping the money supply from growing faster than necessary to finance growth at low levels of price increase, the central bank would force any cost-push impulses generated by wage increases to be translated into reduced output rather than into increased inflation. It was thus up to employers to press for, and unions to accept, wage settlements that made it possible to maintain high-capacity utilization and low unemployment.

This strategy, as Scharpf points out, amounts to "an exact reversal of the allocation of functions between monetary and incomes policy which was practiced in Austria."[78] In taking this approach, he argues, West German strategy imposed an impossible task on the unions. Even if the unions accepted wage settlements that exerted no cost-push pressure, unemployment would still result if there were any other cost-push factors, such as the two large oil-price rises, insofar as the central bank attained its money-growth targets, and as other factors, such as velocity increases, could not offset the policy. Aggregate demand would then be reduced below the real-growth potential of the economy:

> The result will be not only demand-constrained unemployment but also a discouragement of real investment and, thus, a reduction of the real-growth potential available in the next period. . . . Union wage restraint, by itself,

would be entirely powerless to prevent this downward spiralling of economic activity, real investment and employment.[79]

This seems to be a reasonable description of what actually happened. Wage settlements did fall sharply between 1974 and 1975, and continued to be moderate in the subsequent years. Combined with the appreciating DM, which directly reduced the inflationary impact of dollar-denominated oil prices as well as other imports, this pattern contributed to rapid reduction of inflation, as well as to continued surpluses in the current account. At the same time, unemployment roughly quadrupled from its 1973 level to reach 4.1 percent in 1975; it stayed there the next year and went down only to 4.0 and 3.8 percent in the following two years. Moreover, the jump in unemployment occurred at a time when employment dropped sharply, by 4.1 percent over the two years 1974 and 1975, and descended more slowly during the next two years.[80]

Given the combination of declining inflation, appreciating currency and current account surpluses, together with the underutilization of resources indicated by the unemployment levels, there seemed to be plenty of scope for an expansionary macroeconomic policy. Utilizing that scope would not only reduce unemployment in West Germany, but also contribute to recovery elsewhere. International pressure on West Germany to take that course was indeed growing but resistance to doing so prevailed until late 1978, after inflation had returned to its low 1960s level. The government finally adopted a significantly more expansionary macroeconomic policy stance, contributing to a decline in unemployment to 3.2 percent and a 1.3 percent rise in employment in 1979.[81]

Why was the initial West German response to the first oil shock so heavily concentrated on combatting its inflationary impact? And why did it take so long for policy to be turned against the oil shock's deflationary impact even though there was apparently considerable scope for doing so. To put the question another way, why did West Germany not pursue a two-track strategy like the Austrian one? Much of the answer, we suggest, lies in the relatively greater political weakness of West German labour. Thus a West German government controlled by a party based on a labour movement as strong as that in Austria, Sweden and Norway, and which had been in office for as much of the postwar period as the labour movement parties in those other countries, would not only have put a similarly higher priority on limiting the oil shock's deflationary impact but would also have been able to implement a strategy capable of coping simultaneously with its deflationary and inflationary impacts, as did the Austrian strategy.

Such a counterfactual proposition obviously cannot be proved. It is nonetheless clear that West German labour is politically weaker than its counterparts in the other countries; thus the difference in policy responses to the 1970s crisis is roughly consistent with what should have

been expected. It should therefore be possible to establish the mechanism by which the political difference is linked to the policy difference. While the evidence at hand does not suffice for that, it does suggest some important ways in which West German labour's relative political weakness might have contributed to the policy patterns pursued in that country and might have ruled out alternatives pursued where labour was politically stronger. It may also shed some light on the extent to which other differences between West Germany and the other countries might have made it more difficult, if not impossible, to pursue such alternatives even if labour had been as strong politically in West Germany as in countries where it is strongest.

At the time of the first oil shock and until late 1982, the West German government was controlled by a "Social-Liberal" coalition, in which the Social Democratic Party (SPD) was joined by the small Free Democratic Party (FDP). The three elections during this period gave the SPD, 46, 43 and 44 percent of the seats in the Bundestag, or lower house, and the FDP, 8, 8 and 11 percent respectively. The two components of the Christian Democratic opposition (CDU-CSU) held 45, 49 and 45 percent of the seats. The SPD participated in government for the first time since the establishment of the Federal Republic of Germany when it joined with the CDU-CSU to form a "Grand Coalition" in 1966. The Social-Liberal coalition was formed following an election precipitated by the disintegration of the Grand Coalition in 1969. Thus, while the Social Democrats participated in government continuously from 1966 to 1982, they never did so at any time before that in the Federal Republic's history, nor have they ever had the parliamentary strength to govern alone.[82]

The fact that the SPD has had a smaller share of governmental power during the postwar period than its counterparts in Austria, Sweden and Norway obviously reflects its weaker electoral strength. A decisive source of that weakness was the division of Germany, for it was the predominantly Protestant part of Germany, where the SPD had had its greatest strength, that was absorbed into the Soviet bloc. Another source is the weaker support that the West German unions can provide. Union organization, averaged over 1965–80, accounted for 32 percent of the labour force in West Germany, compared with about 50 percent in Austria, 65 in Norway, and over 70 in Sweden. Moreover, the German unions are formally non-partisan, breaking their historical link to the SPD when they reorganized at the end of World War II in order to avoid the debilitating political disunity they had experienced during the Weimar Republic. Thus, while union activists still regard the SPD as "their party," union organization cannot be as effective an instrument of electoral mobilization as it is in the countries with explicit union-party links. The smaller scale of the SPD's constituency of organized workers has resulted in further attenuation of those links because the SPD's greater need to attract other segments of the electorate led it to transform itself into a "catch-all party" to a greater extent than did its

counterparts, though without succeeding sufficiently to win electoral and parliamentary majorities.[83]

Even if the SPD could win majority control of government, however, it might confer less power than government control gives to its social democratic counterparts elsewhere because of differences in governmental structure. The literature on the West German state emphasizes its "fragmentation" or "decentralization." These characteristics are largely attributed to the victorious Allies' anxiety to disperse German state power, and to the influence, as well as the example, of the United States, which brought into the Federal Republic's design versions of the "separation of powers" (more accurately, divided powers), judicial review, federalism, and an independent central bank. The important deviation from the U.S. model was a parliamentary rather than independently elected executive, which Germans had experienced as a route toward dictatorship. German federalism contributes to fragmentation at the national level as well as to decentralization at the subnational level. The upper chamber of the bicameral national legislature, the Federal Council (Bundesrat) consists of representatives of state (Laender) governments. While it only shares legislative authority to a limited degree with the directly elected Bundestag, which selects the chancellor, or prime minister, the Bundesrat has rights of legislative drafting which it uses actively and which help to turn staggered state elections into frequent referenda on national policy. Control of the Bundesrat by the opposition party increases that body's importance as a constraint on the government. Federalism also reinforces fragmentation at the national level because the Laender appoint a majority of the central bank's governing board.[84]

Institutional fragmentation in West Germany has many implications for economic policy. Fiscal authority is divided between the federal and state governments. A substantial share of public revenues and expenditures is handled by the state governments, whose budgets tend to reflect, rather than counteract, economic fluctuations. Moreover, while federal legislation defines most programs for which expenditures are made, the states along with autonomous agencies, rather than the federal bureaucracy, are primarily responsible for administering them. Monetary policy decisions are the closely held prerogative of the central bank. That bank is charged by statute to "safeguard monetary stability" and to "support the general economic policy of the government," but priority is given to the former. The statute also prescribes consultation between the bank and government, entitling the latter to participate in the bank's governing council and to delay bank actions for up to two weeks. However, the government cannot issue instructions to the bank. Other "parapublic institutions" with high degrees of statutory autonomy administer programs of additional though less critical, relevance to economic policy, such as manpower policy and social insurance.[85]

This "decentralization in the public sector" is sharply contrasted with

"centralization in the private sector."[86] Both banking and industry are highly concentrated and also closely integrated through the banks' ownership and administration of significant shareholdings. Further, firms belong to centralized and broadly encompassing organizations that work for cohesive action in the political arena and the labour market, culminating in the peak Confederation of German Industry. The links between banking and industry give the large private banks a role in strategic industrial planning more nearly akin to industrial policy than anything the federal government does. Thus it is claimed that "West Germany's integrated financial structure gives the large private banks as well as the regional banks of the [central bank], rather than the federal government, control of the commanding heights of the economy."[87]

Labour is described as having centralized organization too as a result of the early postwar establishment of a unitary peak organization, the German Confederation of Labour (DGB), composed of a small number of industrial unions. While unions embrace a smaller portion of the labour force than they do in the other countries with strong labour movements, they are accepted as "a legitimate spokesman for the interests of organized and unorganized workers alike."[88] Centralization within non-competitive unions that are highly encompassing in the major industrial sectors is believed to give them the incentive and capacity to engage in sector-wide wage bargaining through which wage growth can be geared to the requirements of macroeconomic stability. Autonomous, centralized unions are thus among the multiple power centres that make the course of the economy more a function of negotiations with one another than of either market interaction or state policy.[89]

Policy formation in West Germany is thus conceived as largely a process of "behind-the-scenes inter-élite bargaining and accommodation among pressure group spokesmen and key public officials" in a variety of institutionalized contexts.[90] This raises two central issues concerning economic policy. One concerns the design of a strategy and coordination of instruments needed to implement it. The other concerns the goals, or substantive priorities, that the distribution of power among the participants in the process tends to establish.

The significance of the coherence issue undoubtedly varies with the level of aggregation and coordination that must be achieved. For regional or sectoral restructuring, effectiveness may not be impaired, and may even be enhanced, by multiple decentralized decisions by separate clusters of bargainers. For such dimensions of activity in the economy as a whole as the level of demand and the terms of international exchange, however, policy effectiveness would seem to be contingent on the coherence with which the required instruments are used, assuming that they serve appropriate strategies. Scharpf puts the matter this way:

> The high fragmentation of policy-making powers in Germany and the extreme requirements for multi-lateral collaboration have one crucial

implication for economic policy (or, indeed, any other policy area) in Germany: A bare parliamentary majority does not convey the power to impose policy choices. In order to be successful, new policy initiatives must be supported by an almost universal consensus: if not, policy deadlock and political immobilism are institutionally inevitable.[91]

In this view, then, the command of public authority based on parliamentary majorities is blunted by its dispersion among multiple autonomous bodies and their links with more centralized and concentrated organizations in the private sector. Yet the limits on the power of political leaders based on parliamentary majorities to effectuate policy choices may not be quite as clear cut as is implied by the rather static picture so far drawn from the literature. To begin with, how much power a "bare parliamentary majority" provides presumably depends partly on whether the majority is constituted by a single party or a coalition. All majorities in West German history so far have been coalitions, except between 1957 and 1961 when the CDU-CSU had a majority enabling it to govern alone. To be sure, the CDU-CSU's dual structure makes it something short of a single, cohesive party, but a review of the extent to which it could effect its policies in that period could provide a relevant test. Such a review cannot be provided here, but it seems doubtful that CDU-CSU policy was constrained by the need to establish a universal consensus including the SPD and the unions.

The scope or inclusiveness of the multilateral policy-formation bargaining process seems bound to affect the likelihood of consensus or deadlock. If universal consensus among the participants is necessary to avoid deadlock, it will obviously be easier to attain if the participants can be confined to those with shared goals. This will be easier to attain if those with different goals lack the kinds of power that make their exclusion impossible. By and large, West German unions and the SPD both lacked such power during the formation and first two decades of West Germany's history. It was during this period that the structure of the German political economy was crystallized and the strategy of export-led growth which has dominated economic policy was established. If economic policy was formed through inter-élite bargaining in that long era, SPD and union leaders were evidently not usually among the participants.

The SPD was brought into the process only when the export-led growth strategy first faltered significantly, in 1966. By then the SPD, followed by the unions, had accepted that strategy's fundamental institutional premises, which presumably helped the SPD to win the increasing electoral support that made it an attractive as well as a safe participant in managing the economy. What the SPD brought with it were additions to the policy mix for managing the economy in conditions where the previous policy mix no longer sufficed. The main reasons it no longer sufficed were that a large labour surplus gave way to very low unemployment by the early 1960s, and the central bank became less and less able

to prevent imported inflation under the pegged exchange rate (which the politically powerful export sector wanted to keep undervalued). These developments made reliance primarily on monetary instruments no longer adequate to maintain German industry's cost competitiveness. The sharp recession induced by the central bank's severely restrictive response to rising inflation demonstrated the need for something more. The SPD offered two principal additions: a way of using fiscal policy to take over some of the burden of stabilization that monetary policy had borne (along with the continued use of fiscal policy as a mechanism for capital formation); and a way of drawing the unions into more explicit commitment to wage restraint than in the intermittent incomes-policy episodes that sufficed when their bargaining power was weaker.[92]

The SPD's entry into government, and even more its assumption of senior partnership in the subsequent Social-Liberal coalitions, plus the union leadership's entry into the formal public arena for discussion of national economic policy created by the "concerted action" meetings, meant that the SPD and unions (to a considerably lesser extent) were now included in the national level inter-élite bargaining process. That development reflected a real growth in electoral and market power which made the continued exclusion of the SPD and unions increasingly difficult. But if the onset of the Social-Liberal era in West German politics marked a significant shift in the distribution of power in the political economy, the change was nonetheless a distinctly limited one. SPD policy choices were constrained by the party's inability to govern without its FDP coalition partner, and the participation in economic policy formation which concerted action provided unions was only marginal. The whole structure that had been institutionalized over the preceding decades, without SPD and labour participation, severely limited the scope for choice in economic policy in the absence of a much greater increase in the political strength of West German labour. Katzenstein sums up the situation as follows:

> Perhaps the most important political lesson West German politics in the 1970s can teach us is the pervasive influence durable institutions had in shaping the objectives and absorbing the policies of an SPD government, which, at least in the early 1970s, was committed to the issue of social reform. Why were the accomplishments of SPD reformers, measured against their own aspirations, so modest? The answer proffered by the preceding analysis is the durability and resilience of the distinctive institutions of the FRG.[93]

To be sure, there were some accomplishments. Industrial relations reforms helped union membership to increase substantially in the 1970s; a modest extension of co-determination (*Mittbestimmung*) was enacted; a manpower program modelled on Sweden's was introduced; and improvements in welfare state benefits resulted in a renewed rise in

transfer payments. But the stream of reforms ended with the onset of the economic crisis in the mid-1970s.[94] The response to that crisis should point particularly clearly to the relative importance of labour's political strength and to other factors constraining choice in the structure of policy formation into which the SPD had been incorporated.

The critical choice to be explained is the persistent refusal to stimulate domestic demand at the cost of continued higher unemployment (elsewhere, as well as West Germany) in the interval from 1975 to 1978. It could be argued that the macroeconomic conditions under which West Germany could adopt a two-track response to the oil shock's dual challenge, with an allocation of functions among fiscal, monetary, exchange rate and incomes policy like that adopted in Austria, were not present in West Germany before 1975; and that the monetary policy pursued in 1973 and 1974 was necessary to establish those conditions and succeeded in doing so. The question would thus be why West Germany did not pursue a two-track strategy like that implemented by Austria once the conditions for doing so had been established.

The question is defined this way on the ground that incomes policy could not perform the function assigned to it in the Austrian strategy under the macroeconomic conditions prevailing in West Germany until 1975. The experience of incomes policy between 1968 and 1974 demonstrated what experience with it everywhere did: incomes policy is unworkable under conditions in which restraint by unions keeps contractual wages below the amount that employers' profits make them willing to pay and that workers can get, with or without unofficial strikes. Wage restraint under those conditions threatens unions with loss of their members' support and, when that loss of support is expressed through wildcat strikes, loss of the control over their members that gives employers, and sometimes governments, the incentive to negotiate with unions.[95]

At the first "concerted action" meeting in 1967, the West German government held that wage restraint was necessary to restore profits and to sustain the recovery from the 1966–67 recession that expansionary fiscal policy was expected to achieve. Note that concerted action was designed to provide a common basis for interpreting the implications of alternative courses of action, rather than to negotiate bipartite or tripartite agreements on wages and prices. Wages themselves were still privately negotiated between unions and management at the regional-industry level; this process was supplemented by local bargaining, but with the common understanding of the implications provided by concerted action. In this initial instance, the unions accepted the government's view and negotiated agreements consistent with its projections.

The projections proved wrong, however. Lagging wage costs and an undervalued currency enabled the FRG's export industries to make the most of the substantial growth of external demand in 1968 and led the

West German economy in a much more rapid recovery than had been expected. The wage rises to which the unions had agreed turned out to be much less than employers could pay. While the unions were slow to react, claims and settlements were rising by 1969. But this was not soon enough to avert widespread membership discontent, which broke out in an unprecedented wave of unofficial strikes in the coal and steel industries.

After this experience, the West German unions were reluctant to again put themselves in the position of settling too low relative to market conditions and thereby risking the loss of support and outright revolt by their members. This risk was all the greater because of the rivalry between national unions and workplace leadership built into the two-tier German industrial relations system. In the early 1970s, therefore, the unions pressed for increases considerably above the increases the government called for in renewed pleas for restraint. Moreover they backed their claims with official strikes, which reached a postwar peak in 1971. A slowdown in the economy and stiffer employer resistance produced lower settlements in 1972 and 1973, but these settlements again proved too low in the face of the upswing in activity and prices in those years, and they provoked a new wave of wildcat strikes in 1973. This situation, plus the expectation that oil prices would accelerate inflation from almost 7 to over 10 percent, made the unions press for increases that would protect real wages. Manufacturing employers, who shared the same expectation about inflation, and who expected enough productivity growth to preserve profits, agreed to increases averaging 12 percent for 1974. This rate was almost as high as the rates in 1970 and 1971 which were set at 12.4 percent and 13.4 percent, respectively.

These developments reflected macroeconomic conditions that had been extremely difficult for the government to control with the fiscal and monetary instruments on which it had been relying, particularly as long as monetary policy was constrained by the pegged exchange rates that the export industries were interested in keeping where they were. The chief source of difficulty lay in vastly increased instability in the international economy, especially the powerful inflationary impulses imparted by the Vietnam and Nixon pre-election booms in the United States. Tighter monetary policy to dampen the domestic inflation was self-defeating because the higher interest rate simply increased imported inflation by encouraging further capital inflows, which reached levels beyond the capacity of the central bank to sterilize.

West German efforts to master this situation persisted from the late 1960s, and achieved success by 1975. The first step was the revaluation in 1969 when the export sector's capacity to block such a measure was ended by the replacement of the Grand Coalition with the Social-Liberal coalition. This revaluation along with fiscal restraint implemented after the 1970 Laender elections, contributed to a slowdown. The renewed

pressure on the dollar, culminating in the end of dollar convertibility, caused another massive inflow of capital supplied by speculators, whose gamble paid off when the DM was floated and appreciated further. When the Smithsonian Agreement to peg rates at their new relationships gave way before new waves of speculative capital movements, the West German government introduced temporary capital controls and adopted the combination of permanent, though managed, floating and the more restrictive monetary policy which floating rates made possible. At the same time, the emphasis in monetary policy was shifted to money-supply control.[96]

The new strategy required a little while to take hold. The central bank, "contrary to widespread expectations," refused to accommodate the high 1974 wage settlements.[97] It stuck to, and largely succeeded in meeting, its announced money-growth targets. This achievement, together with the DM's appreciation, made it difficult for firms to pass on the increased wage costs by increasing prices either in domestic or foreign markets, producing a sharp profit squeeze. Inflation did not increase as expected in 1974, but stayed roughly level and even declined to 6 percent in 1975. The employers reacted by layoffs and stiffened resistance to wage increases in the next bargaining round, and the unions sharply scaled down their claims. The outcome was a drop in the average level of settlements in manufacturing to 9.1 percent in 1975 and to 5.6 percent in 1976, while the rate of inflation fell further to 4.5 percent in 1976.

The transition to what amounted to a "hard-currency" exchange-rate policy, together with the demonstrated credibility of the central bank's money-growth policy, established control of the macroeconomic environment to an extent that now made it rational for unions to engage in wage restraint. Lower nominal settlements could be accepted with much less risk of real wage losses from inflation, and there was much less risk of membership disaffection and unofficial action to recoup any real wage losses. Thus, conditions had been created under which incomes policy could now be counted on to work in tandem with the hard-currency policy to hold down inflation, leaving fiscal policy free to stimulate domestic demand sufficiently to reverse the growth in unemployment. At the same time, the central bank could concentrate on the difficult balancing act of keeping the foreign-exchange rate at the level required to perform its macroeconomic function and the domestic money supply growing at a rate commensurate with lower unemployment at the lower nominal wage and price growth rates that had been attained. In other words, the stage was set for implementing an Austrian strategy.

Why did it not happen? It could be argued that the lower wage-increase rate could not have been maintained if unemployment had been brought back down. But this argument implies that the German unions, unlike the Austrian unions, would not accept lower nominal wage

increases in exchange for lower unemployment under macroeconomic conditions that lowered the risks to them in other ways. This is not very convincing, considering the West German unions' history of willingness to engage in wage restraint when they judged it safe to do so (though they sometimes misjudged), or in view of the West German employers' toughness and organizational ability to resist wage rises when deemed necessary to protect profits.

It could also be argued — and was argued by West German employers and economists — that unemployment persisted because wages had not gone down enough to restore profits to levels at which investment and employment would rise sufficiently to reduce unemployment. This was the rationale for "reprivatizing" the risk of unemployment. The unions, and some members of the SPD, argued that the cause of the unemployment lay not on the supply side, but on the demand side; investment and employment would accordingly not rise until there was sufficient demand to absorb the resulting output. There was manifestly insufficient demand in foreign markets, so the deficiency of demand had to be made up by increasing domestic demand.

This, of course, amounts to a typical confrontation between "classical" and Keynesian explanations of unemployment. In part, the theoretical conflict reflects a conflict over income distribution, the outcome of which, at the political level, is determined by the distribution of power among those with conflicting distributive interests. To be sure, there has been a good deal of discussion among economists concerning the extent to which unemployment during the 1970s has been classical or Keynesian. The issue turns on the extent to which unions have been able to protect real wages in the face of the decline in aggregate real income produced by the OPEC "tax," thereby shifting the burden of the decline to profits.[98] This does seem to have happened to some extent in many European countries, including Austria. This initial impact, however, was reversed in Austria without increasing unemployment, and the comparable decline in wage growth in West Germany should have been sufficient to permit a comparable unemployment record. Given the performance of other economic variables in West Germany, such as inflation and the current payments balance, and given the feedback effect on West German exports that an increase in domestic demand for imports from its export markets could be expected to have, it is hard to see how there was any real economic barrier to increasing domestic demand and reducing unemployment at least two years before these steps were actually taken.

There remain the obstacles that might be posed by the extent to which the fragmentation of public authority tends to blunt political power channelled through parliamentary politics. Most pertinent in this connection, of course, is the independence of the central bank. Thus, even if a stronger labour movement provided the resources with which the SPD could win a Bundestag majority that would enable it to govern alone and to win control of enough Laender to procure a Bundesrat majority as

well, the SPD would only gain control over fiscal policy, while monetary policy would continue to be controlled by the central bank. The bank could be expected to use its control to frustrate the expansion of domestic demand by fiscal policy.

This is not entirely convincing either. There is room for doubt as to how much of the independence ascribed to central banks is reality and how much convenient myth. Belief in the banks' independence provides a ready reason why some things cannot be done. But not even the West German central bank lives in a political vacuum that leaves it totally impervious to shifts in power. In any event, its policy in the 1970s was not one that it pursued despite the government's wishes to the contrary; there seems to have been agreement on basic strategy as well as close regular communications between the Chancellor and key ministers and the bank, even if there was some disagreement both among Social Democrats and between them and the Free Democrats in the cabinet.[99] A governmental leadership with a view of economic strategy requiring central bank support for a more expansive fiscal policy might not have had much greater difficulty in securing that support, particularly if the political support for that policy were reflected in the Laender governments that appoint bank board members. Even taking into account the bank's statutory obligations, which, of course, can be changed by legislation, it would be legitimate for, and indeed incumbent on, the bank to support a policy of stimulating demand to reduce unemployment as long as "monetary stability" could be considered to be safeguarded.

Accordingly, it is difficult to resist the conclusion that West German policy did not respond to the dual challenge posed by the first oil-price shock by implementing something like the Austrian dual-track strategy, once the conditions for doing so had been fairly well approximated by 1975 or at least 1976, primarily because of the greater political weakness of labour in West Germany than in Austria, and only secondarily because of the differences in the two countries' respective political structures, which actually have much in common. Of course, such a counterfactual proposition is not only untestable, but its very formulation is questionable, for it suggests greater independence between the distribution of social power and institutional structures than seems warranted. Thus, under conditions that would have made possible a stronger labour movement in West Germany — above all, under an outcome of World War II that would have left Germany defeated but intact, as it left Austria — the institutional structures, societal as well as governmental, within which West Germany operated would presumably have been different as well. Adopting one counterfactual assumption entails the adoption of others. However, this does not rule out the conclusion that the differences in policy can be accounted for largely by differences in labour's political strength, whatever their historical sources.

At least some indication of the subsequent course of the political West

German economic policy is necessary.[100] While West Germany adopted a somewhat more expansionary macroeconomic policy stance in 1978, in response to both international and domestic political pressure, there was no shift in the basic pattern of policy toward stimulating domestic demand in order to offset the decline in demand for exports (and to limit the decline in demand for exports by supporting the demand for West Germany's trading partners' exports). Instead, the government continued to pursue a policy pattern designed to keep the economy in a favourable position to take advantage of any resumption of export demand. Thus policy remained committed to the export-led growth strategy that had been pursued throughout the postwar period.

Pursuit of that pattern, however, was made increasingly difficult by the second oil-price shock and by the sharp fluctuations in U.S. monetary policy and exchange rates that preceded and followed it. Differences intensified between the two parties in the governing coalition over how to deal with the situation as did tensions within the Social Democratic party. These differences led the Free Democrats to shift their support to the Christian Democrats, enabling the latter to return to power as senior partners in a new coalition government in autumn 1982. This development strengthened the political basis for continuing policies premised on the export-led strategy, despite the even deeper recession, and led to a continued rise in unemployment, along with the fall in employment that had been almost continuous since 1975. In addition, it further limited West Germany's contribution to international economic recovery.

The turn of political events in 1982, followed by the March 1983 election, which returned the CDU-FDP coalition to office on the basis of increased CDU strength in the Bundestag, underlined the weakness of the political basis for continuing to meet employment and welfare goals under conditions where the attempt would evidently have required a shift in economic strategy. Such a shift would have required assigning greater weight to domestic demand and a corresponding adaptation of the composition of economic activity. Such a shift would not have been free of difficulties, however. In West Germany, as in Austria and elsewhere, a major source of the difficulties in meeting employment and welfare goals, whatever the strength of the support for them, was the impact of U.S. policies, to which we therefore briefly return.

The U.S. Experience

By the 1980s, as the Austrian and West German cases suggest, U.S. policy was acting as a powerfully deflationary force in the international economy. From the late 1960s to the late 1970s, its impact had been destabilizing, imparting strong inflationary as well as deflationary impulses to other countries. The international impact of U.S. policy had thus changed in character. To argue that there has been a shift toward a

more consistently deflationary influence may seem premature, especially in view of such signs of dynamism in the U.S. economy as the growth in employment over a period in which employment has remained almost stagnant in Western Europe. But labour-force growth in the United States has also been greater than that in Western Europe. Moreover, U.S. employment growth has slowed. It was most rapid in the second half of the 1970s. That was when the Carter administration sought, however fitfully, to reduce unemployment from its highest postwar level until then, to which it had been driven by the Nixon-Ford administration's efforts to undo the inflationary effects of the 1971–72 pre-election stimulus and associated commodity-price shocks. After slowing and even turning into a decline in the even deeper 1980s recession, employment growth has resumed, but in the context of a policy pattern that seems likely to preclude a return to low unemployment.[101] Such a policy pattern might well be sustainable as a result of political developments that have significantly diminished the political constraint against persistently high unemployment.

The response to the second oil-price shock in the OECD area was more uniformly directed against its inflationary impact than was the response to the first. The fact that the second occurred during an upswing rather than after the peak of an expansion had passed probably contributed to the response. Heavier reliance seems to have been placed on monetary restriction after the second oil-price shock. Whatever the means, the effect of the response was powerful. by 1983, inflation was sharply reduced to 4.5 percent among the major seven OECD countries and to 3.2 percent in the United States. But the attack on the second oil-price shock's inflation impact also reinforced its deflationary impact. In 1983, unemployment was driven to its highest levels since the interwar Great Depression, averaging 8.2 percent in the seven major OECD countries and 9.5 percent in the United States, where it had already risen to that level in the previous year.[102] That there still could be a trade-off between inflation and unemployment could hardly have been more clearly demonstrated. A large reduction in inflation could be bought at the cost of a large increase in unemployment, providing that the political constraint against such levels of unemployment had been sufficiently weakened.

That is just what happened in the United States. As suggested earlier, the constraint had evidently been weaker there than in Western Europe over the postwar period as a whole. As we also saw, however, it had sufficient strength to have significant electoral and policy consequences. If Nixon's interpretation of his 1960 defeat was correct, that defeat came about because the Republican administration of which he had been part had violated the unemployment constraint. The Kennedy and Johnson administrations had strengthened the constraint by demonstrating the possibility of achieving lower unemployment. The standard of economic performance against which a Republican administration's economic

performance could be measured was thereby reset. Economic performance under Nixon could not fall far short of the Kennedy-Johnston record, even in the name of fighting inflation, without exposing the Republicans to the charge that they were still the party of unemployment, as they had been under Hoover. Nixon's expansionary policy prior to the 1972 election was designed to avert that danger. Unless he could manage that, he was evidently convinced, he would not be able to do anything else.

Nixon's pre-election policy reinforced the standard. It had once again been shown that government could reduce unemployment; a Republican administration that failed to do so thus remained open to the charge of being the party of unemployment, ostensibly because of business hostility to government intervention in the economy. The party's continued vulnerability to the charge was demonstrated in the 1976 election. Following the 1972 election, the Nixon and Ford administrations allowed unemployment to rise to a new postwar peak of 8.5 percent in 1975. It then fell to only 7.7 percent in 1976. On a seasonally adjusted monthly basis, if fell over the 12 months between May 1975 and 1976 from a peak of 9 percent to a trough of 7.3 percent, but then it climbed back up to 8 percent in the election month. This was the price that was paid for bringing inflation down from its high of 11 percent in 1974 to 5.8 percent in 1976 through highly restrictive fiscal and monetary policies. While President Ford claimed this fall in inflation as a major achievement, Carter made unemployment a major issue and defeated Ford.[103] Of course the economy was not the only issue, and certainly inflation was an important aspect of the issue along with unemployment — among other things, Ford's wholesome image was not enough to dispel the shadow of Watergate — but it seems clear that the unemployment constraint still operated as an electorally enforced standard for economic policy performance.

That constraint, however, operates in this way only on condition that there is an alternative to the party in office than can credibly claim that it can meet that standard more effectively. More specifically, a government of the right, supported more by business than by labour, risks electoral defeat if it tries to curb inflation by relying on significantly higher levels of unemployment than prevailed when a party to its left — if not of the left in the European sense — supported more by labour than by business, had previously been in office. Thus, the Kennedy and Johnson administrations' record lent credibility to Carter's claim that the Nixon and Ford administrations had exacted too high a price in unemployment for their gains against inflation, and that a Democratic administration under his leadership could do better.

By the time of the 1980 election, however, the credibility of Carter's claim, and with it the strength of the unemployment constraint, had been much diminished. To be sure, unemployment had declined to 5.8 percent

in 1979. While that figure was well below the 1975 peak of 8.3 percent reached while Ford was in office, it matched the 1971 peak that Nixon feared would cost him his re-election if it were not decisively reduced. Moreover, unemployment turned up during 1979 and rose rapidly during 1980. By the time of the election, it was back up in the region in which Carter had attacked it as the excessive price paid by the Ford administration for reducing inflation. The difference in 1980 was that high unemployment was not, so far, buying any reduction in inflation, which reached a new peak of 15 percent in the first half of 1980. Thus Carter presented himself for re-election at a time when the "misery index" (unemployment plus inflation) was at its highest recorded point.[104]

While this situation alone would seem to have been sufficient to assure Carter's defeat, much else, again, entered into it. Even so, Reagan won only 51 percent of the vote in a turnout of 55 percent, the lowest since 1948.[105] Whatever weight Carter's economic performance may have had in the outcome, the important consequence of that performance is that it undermined the credibility of a Democratic administration as an alternative to a Republican one that permitted unemployment to rise above 1960s levels; thus it significantly weakened the unemployment constraint. Just one measure of this result is the much greater swing of support from the Democratic to the Republican candidate from 1976 to 1980 among the 19 percent of voters who regarded unemployment as the most important problem as compared to the 2 percent of voters who regarded inflation as most important.[106] Freed of that constraint, the Reagan administration was able to buy a very large reduction in inflation, bringing it down to early 1960s levels, with the highest level of unemployment since the 1930s. This shift was brought about essentially by a continuation of the highly restrictive monetary policy implemented through control of the money supply; inaugurated in 1979 by Carter's appointee as head of the central bank.[107] Technically as well as politically, then, the Carter administration opened the way for the broader shift in economic policy undertaken by the Reagan administration. This shift included tax and expenditure changes that produced a major increase in inequality, as well as the combination of budget deficits with tight monetary policy that raised interest rates to unprecedented levels and has severely hampered expansion abroad.[108]

This decisive turn in U.S. policy calls for fuller discussion than is possible here. Some brief comments on its international sources and implications must accordingly suffice.

The tightened monetary restraint leading to renewed unemployment growth in the Carter administration's last year reflected the difficulty of pursuing a more expansionary policy than other major countries in the context of interdependence as it had come to be structured. This difficulty was recognized by the Carter administration when it came into office in 1977.[109] The new administration was committed to undoing the

social damage done by the restrictive response to the first oil-price shock by its predecessor, but it was highly conscious of the contribution made by the governments of the other major countries, especially West Germany. It thus anticipated that a shift to expansion in the United States, without a similar shift in the other countries, was likely to cause a deterioration in the U.S. current balance and depreciation of the dollar. Initially, this result was acceptable, given the large U.S. current surplus at the time and the expectation that dollar depreciation would increase pressures for expansion from the tradables sectors in the other major economies with surpluses, in order to limit the resulting loss of competitiveness. As time went on, however, the continuing depreciation produced by going it alone would increase domestic inflationary pressures, which could turn into a depreciation-inflation vicious circle that could bring expansion to a halt.

Moreover, joint expansion by all three "strong" economies was expected to have larger multiplier effects than could action taken by any one of them alone. At the same time it would reduce the payments imbalances between the surplus and deficit countries, relaxing the constraints on the latters' expansion while improving exchange-rate stability. On these grounds the Carter administration, with support from Britain, some smaller countries and the OECD, called upon West Germany and Japan to join it as "locomotives" to pull the other countries the rest of the way out of the post-oil-shock recession.

Japan and West Germany resisted, however, and the latter stuck to the restrictive stance described earlier. The U.S. initiative was blunted by the weakness of the administration's own political position, which was rooted in the disarray of the Democratic party (of which Carter's nomination was itself a symptom) and in associated macroeconomic policy vacillations.[110] These factors were most pertinently marked by withdrawal of a tax-cut proposal a few months after it was made and by prolonged difficulty in gaining support for policies designed to reduce the disproportionate U.S. claim on world energy resources. This claim was a major point of contention between the United States and the other countries. As the United States continued to go it alone, the depreciation-inflation dynamic gained momentum. A major West German response was to move toward establishing the European Monetary System (EMS) as a way of achieving greater exchange stability in Europe in the face of dollar depreciation. Domestic pressure, however, was also joining international pressure, including agreement on growth and trade issues between the United States and Japan, for more expansive macroeconomic policy. These pressures finally issued in the West German shift toward expansion, following a commitment to do so at the 1978 Bonn Summit, made in return for U.S. commitments to fight inflation as well as to curb U.S. oil imports.

By the time the bargain was struck, however, it was too late to relieve the vulnerability of U.S. expansion to speculative pressures on the dollar. These pressures had pushed the depreciation-inflation dynamic to the point where there was apparently no alternative to a turn toward restriction, a change which had to rely on monetary policy for the relevant and sufficiently rapid effects, at least within the conventional range of options. Outside those limits, it is possible to imagine other possibilities. One alternative, for instance, might be a major initiative coupling temporary controls on capital movements with the convening of an international conference to reform the monetary regime, perhaps along the lines of the option, mentioned earlier, foreclosed at the end of World War II. But the circumstances were not those in which new regimes are typically set up, and the political basis for cooperation in establishing something like a new international institution to manage a new international currency, or in turning the IMF into such an institution, was not present in the major countries that would have had to agree. In the absence of changes in the international monetary system, was there a domestic economic strategy that might have enabled the United States to pursue a more expansionary policy than other countries without generating the depreciation-inflation dynamic that had forced its abandonment? As Austria's experience showed, it was possible for an individual country to achieve this. But if the kind of strategy that Austria pursued is contingent on the kind of political structure that Austria possessed, that condition is obviously very far from met in the United States. Moreover, it is not clear that even if that condition were met, it would be possible to pursue such a strategy as long as the dollar's reserve currency role continued. However, if that condition were met, the United States might well have been a powerful protaganist for a monetary regime in which the dollar did not serve that role.

All of this makes it difficult to see how the train of events culminating in Reagan's victory could have been avoided. The U.S. position in the international economy, as well as the structure of U.S. politics, as both evolved after the turning point of the the Vietnam War, played a large part in producing that train of events. The United States, no longer a hegemonic power virtually able to impose international arrangements on other countries, was perhaps no more able to choose an expansionary course than were Great Britain, Italy or France (in the mid-1970s as well as under Mitterrand in 1981). Nevertheless, there appears to be an asymmetry in the scope for choice, or even in the power to impose its views on others, between the United States and other countries. Thus when it came to choosing a deflationary course, pursued by a policy mix with profound consequences for the rest of the world, the United States seemed bound by no constraints. As Bergsten put it, writing in 1981, "the United States is nakedly and rather bluntly forcing its economic policies

and priorities on the rest of the world."[111] The outcome of the 1984 election offers little prospect for change in the policy mix on which the Reagan administration has relied so far.

Conclusions

The foregoing discussion has addressed the dilemma of combining full employment and the welfare state with participation in an open, capitalist international economy. This dilemma has confronted governments in the advanced industrial societies in the OECD area throughout the postwar period. However, it has done so in varying degree, in different countries and times, depending on how much importance has been attached to the employment and welfare goals, and how difficult it has been to reconcile these goals with participation in the international economy. Today it is perhaps more difficult to achieve this reconciliation than any time in the postwar period. This does not make the dilemma more intense than it has been over the same period for all of the governments concerned, however. There remain differences among these governments in the importance they attach to employment and welfare goals, and in the difficulty they have in combining those goals with open international capitalism. The discussion has focussed both on the political factors determining these differences and on how variations in those factors among the economically interdependent advanced industrial countries affect the difficulty with which these goals can be reconciled with participation in the international economy. An argument concerning those factors and their implications for the dilemma was set forth and illustrated by selected aspects of experience since the end of World War II.

The argument's point of departure is the proposition that variation in the political strength of labour movements is the single most important factor accounting for differences in the extent to which employment and welfare goals are pursued. Other political factors affect the extent to which governments pursuing those goals actually attain them. These include the capacity to devise economic strategies appropriate to the specific conditions under which the goals are pursued and the institutional arrangements to implement the strategies. The extent to which those goals are attainable in any country does not, however, depend only on the extent of the political support and capacity for implementation in that country. It is also affected by the way in which differences in political support and capacity for implementation are distributed among the other countries participating in the open, international, capitalist economy, depending on the relative weight of the different countries in that economy. Thus, while the participation makes them interdependent, differences in their relative weight makes their interdependence asymmetrical.

Those countries with the greatest weight have the greatest impact on the specific conditions under which others pursue employment and welfare goals, to whatever extent those goals receive domestic political support. The impact operates in two main ways. One is by influencing the norms and facilities governing and supporting international transactions and the kinds of economic strategies that are thereby rendered permissible and feasible; that is, the regimes that structure various aspects of interdependence, such as finance and trade, and are institutionalized in differing degrees and forms. The other is by the influence of their economic strategies on the magnitude, composition and terms of the transactions that take place within the structure of interdependence; that is, the levels of demand, inflation, interest rates and exchange rates. If political support and capacity for employment and welfare goals is high in the countries with the greatest weight, those countries can be expected to have an impact on international economic regimes and on levels of activity that facilitates the attainment of those goals in other countries. If political support and capacity for those goals is low in the most influential countries, their impact can be expected to make attainment of those goals more difficult in the other countries.

The argument was set forth as a hypothesis, or set of hypotheses, which obviously could not be adequately tested within the limits of this paper. Instead, some support was sought for at least the plausibility of the argument from a review of some comparative evidence and some important postwar developments. Relatively strong support was found for the proposition that differences in the political strength of labour are closely associated with the extent to which employment and welfare goals have been attained and, implicitly, pursued.

That the attainment of those goals depends, as well, on strategic and institutional capabilities was most strongly suggested by examination of the Austrian experience. It might have been illustrated, as well, by examination of the Swedish and British experiences if that had been possible. While strategic and institutional capabilities, as well as the political strength of labour, have been relatively high in Sweden, those capabilities fell short of what was required to cope with the conditions under which employment and welfare goals were pursued in the 1970s. The consequences seriously threaten the possibility of attaining them in the future, although the possibility has not yet been destroyed.[112]

While labour's political strength is somewhat lower in Great Britain than in Austria or Sweden, it was sufficient to enable its Labour party to control the government during the crucial early postwar period and two subsequent periods. But the strategic and institutional capabilities of those Labour governments fell much further short of what was required to attain employment and welfare goals on a sustainable basis under the conditions defining the problems of economic policy in Great Britain. This was true throughout the postwar period, although it was largely

obscured until the second period of Labour government in the 1960s. It was certainly evident under the even more exacting conditions prevailing during the third period of Labour government in the 1970s. The cumulative effects of repeated failure eroded electoral support for the Labour Party and exacerbated tensions within it, culminating in a split that effectively destroyed labour's political strength as a constraint against the abandonment of employment and welfare goals. Lacking the required strategic and institutional capabilities, then, the 1970s Labour government opened the way for the abandonment of those goals by the Thatcher government, much as the Carter administration opened the way for a similar reversal of the previous pattern of policy.[113]

The relationship between the distribution of differences in labour's political strength among countries of varying weight and the difficulty with which employment and welfare goals can be attained proved to be more complicated. The relationship is obviously a question of the impact that the United States has had, since it has clearly had the greatest, although declining, relative weight over the postwar period. The United States is among the countries in which labour is politically weakest, and this is associated with lower attainment of employment and welfare goals than in countries in which labour is politically stronger. According to our hypothesis then, the United States' impact would have an inhibiting effect on the attainment of those goals in countries where political support and capacity for their realization is greater, but where these goals must be pursued under economic conditions decisively influenced by U.S. policy.

There has, however, been considerable variation in the extent to which U.S. policy has had an such an inhibiting impact on the attainment of employment and welfare goals over the postwar period as a whole. The thrust of the initial U.S. effort to create an open, capitalist economic order at the end of World War II was in that direction, and its current policy seems to limit much more severely the possibilities of attaining employment and welfare goals abroad, as well as at home. U.S. policies in the intervening period, however, ranged from significantly facilitating the attainment of employment and welfare goals to hampering it by generating instability, though without posing obstacles as serious as they do now.

Changes in the postwar monetary regime provided a major illustration of the shifting impact of U.S. policy. Its initial effect was to rule out a public international institution designed to manage an international currency in such a way as to maximize the scope for national pursuit of employment and welfare goals. Although the more restrictive regime established at U.S. insistence was also formally managed by an international institution, it was based on the dollar and was thus dependent on U.S. economic policy. But the constraints that the regime was designed to impose on others were relaxed by U.S. policy almost immediately

after the regime was established. By massive injections of funds — through the Marshall Plan and subsequent payments deficits — the United States provided the finance for reconstruction and then for trade-based growth that the regime could not; by this means it facilitated the approximation of full employment and development of the welfare state in Europe. When the regime's requirements for exchange rates pegged to a dollar convertible to gold imposed increasing constraints on U.S. policy, the United States unilaterally terminated the requirements. What replaced the regime was not something more like the one ruled out initially, and which might have provided stability with fewer constraints on U.S. as well as other countries' policies, but one in which private transnational institutions play a central role that renders national pursuit of employment and welfare goals highly vulnerable to massive, rapid, capital movements. In this context, the shift from those goals by U.S. policies in the 1980s has had a powerful inhibiting effect on their attainment elsewhere.[114]

The shifting impact of U.S. policy is hardly attributable to persistent or slowly changing features of the domestic political structure such as the fragmentation of government authority and the relative political weakness of labour. For this reason its sources were sought in other kinds of factors. Two seemed of particular importance. One was the global rivalry between the United States and the Soviet Union and the other was the dynamics of party competition in the electoral arena. Each factor was seen by successive administrations as making demands for economic performance, depending on the definitions of foreign and domestic policy goals for which support could be mobilized, and which economic policy had to reconcile. Several economic policy developments with important international consequences suggested how such factors operated. First, the Cold War's onset permitted resources to be tapped for European reconstruction. Then, the reassertion of ambitious foreign and domestic goals mobilized support for activist management of the economy until the goals were brought into conflict by the Vietnam War, imparting a strong inflationary impulse to other countries. The problems of meeting the goals, which party competition made it difficult to redefine under conditions imposed by the monetary regime, subsequently led to the regime's modification and to new destabilizing impulses. The continuing problems of meeting those goals under conditions imposed by the modified monetary regime finally undermined the domestic political constraints against redefining goals. Consequently, the goals could be redefined in terms permitting decreased resources for civilian purposes and increased resources for military purposes, and the resources could be reallocated by a policy mix that limits the attainability of employment and welfare goals abroad as well as at home.

The scenario of shifting U.S. economic policy seems consistent with a hypothesis that attaches significant explanatory weight to the relative

political weakness of labour. Labour had enough political resources to make it an important component of a coalition with the potential for strengthening the political constraint against high unemployment and perhaps, too, the political basis for improving the strategic and institutional capabilities for avoiding high inflation without precipitating high unemployment. The breakup of that coalition over the Vietnam War destroyed that potential and left the unemployment constraint weak. Along with other factors, labour could contribute to policy shifts toward employment and welfare goals. When the other factors operate in the opposite direction, however, labour contributes too little to the political constraint against a policy shift away from those goals to prevent it. While the link between labour's political weakness and the international impact of U.S. economic policy is even more contingent on intervening variables, the weakness of the unemployment constraint that rests largely on the paucity of labour's political resources must certainly be counted as decisive in making possible the policy mix that has severely inhibited expansionary policy to reduce unemployment, even in countries where the political support for that goal is strongest.

The scope for pursuing such a policy in the face of an unfavourable international economic environment was explored by examining economic policy since the first oil-price shock in two other countries, Austria and West Germany. The Austrian case demonstrated that there was considerable scope for expansionary policy to avert unemployment. But the extent of political support and capacity for doing so was probably greater in Austria than in any other country, making that country the most favourable case, although some of the other countries with small open economies, politically strong labour movements, and national bargaining between highly centralized unions and employer organizations also seemed to withstand the 1970s crisis somewhat better than average. Even in Austria, however, it has proven difficult to cope with the deepened crisis of the 1980s, particularly because of the constraints imposed on both fiscal and monetary policy by the unprecedentedly high real interest rates resulting from the U.S. policy mix.

While there also seemed to be considerable scope for national policy autonomy in the West German case, that scope was not fully utilized to limit unemployment. It was suggested that the explanation lay in labour's greater political weakness in West Germany than Austria, rather than in the somewhat greater institutionalized fragmentation of governmental authority in West Germany. Because of West Germany's much greater weight in the international economy, which has grown rapidly relative to that of the United States, the persistence of its relatively restrictive policy helped to limit the expansionary policy of other countries, including even the United States, after the Carter administration's entry into office resulted in a switch to such a policy. The United States was forced to retreat from that policy by massive capital movements, particularly into West Germany.

This episode and more recent events have demonstrated the deflationary bias of the international monetary system as long as any large country pursues a restrictive policy. Many economists have accordingly emphasized the necessity for coordinated, as well as careful and differentiated, expansion as a prerequisite for overcoming the most serious economic crisis since the 1930s.[115] Yet the possibility of coordination depends on whether there is sufficient commonality of goals among the governments whose agreement on coordination is necessary for it to occur. Those goals, in turn, obviously reflect the political basis of those governments. If their political basis makes them give low priority to low unemployment, coordination among them is unlikely to bring about that result. More likely, coordination, which implies an acceptance of active macroeconomic policy, will not occur at all, and the deflationary dynamic in the international economy will be perpetuated. In that context, mutually damaging competitive strategies rather than coordinated expansion seems most likely.[116]

For countries where domestic politics still attach importance to employment and welfare goals, the conclusion to which the argument set forth in this paper would point, if it could be substantiated, is a bleak one. Of course, the argument could well be invalid, for it abstracts from a whole range of relevant considerations. Among those, however, are many that would reinforce the bleak conclusion. For example, the role of countries outside Europe and North America in the changing international division of labour was not mentioned, except for brief reference to Japan. To take this into account explicitly would probably only underline the difficulty of the adjustment problems confronting economic policy in the North Atlantic countries discussed, especially as long as the prevailing macroeconomic policy stance in those countries continues to be restrictive. Even with respect to those countries, discussion of the political sources of economic policy was confined primarily to variations in the political strength of labour, and the other actors in the respective political economies were largely neglected. To take into account the perceived stakes of various segments of capital, different as they may be, and even employees who may perceive themselves to be less vulnerable to unemployment or the kinds of insecurity against which the welfare state provides protection, would probably not suggest possibilities for new coalitions in support of employment and welfare goals.

This is not to say that the possibilities for agreeing on positive-sum strategies among countries differently situated in the changing international division of labour, and among actors differently situated within the domestic political economies of North America and Western Europe, are not worth exploring. On the contrary, it is urgent to do so. But this judgment is an expression of political values. Those who do not share those values are not likely to share that sense of urgency, but to be satisfied by the operation of an open, capitalist, international economy in which national policies aimed at employment and welfare goals have

been severely hampered, if not disabled, whatever the social costs. It appears that those with the latter values are politically ascendant for the time being. Whether they will continue to be ascendant until the social costs precipitate political crises and possibly war, as they did after a similar ascendancy in the 1920s, remain to be seen. History cannot, of course, be expected to repeat itself precisely; this time the outcome could be far worse.

Notes

This study was completed in December 1984.

1. Thomas Baloghs, *The Irrelevance of Conventional Economics* (New York: Liveright Publishing, 1982), p. 47. The London *Times* article is quoted in William H. Beveridge, *Full Employment in a Free Society* (London: George Allen and Unwin, 1944), p. 195. For evidence on European union positions, see Peter M. Lange, George Ross, and Maurizio Vanicelli, *Unions, Change and Crisis: French and Italian Union Strategy and the Political Economy, 1945–80* (London: George Allen and Unwin, 1982); and Peter Gourevitch et al., *Unions and Economic Crisis: Britain, West Germany, and Sweden* (London: George Allen and Unwin, 1984). For the United States, see the regularly issued *Statements and Reports Adopted by the AFL-CIO Executive Council*. Historically, unions did not always support welfare-state measures, viewing provision of benefits by unions rather than the state as a means of attracting membership. Thus the narrowly craft-based American Federation of Labor originally opposed enactment of Social Security in the United States. See the discussion in Arnold J. Heidenheimer, Hugh Heclo, and Carolyn Teich Adams, *Comparative Public Policy: The Politics of Social Choice in Europe and America* (New York: St. Martin's Press, 1975), pp. 196–202.
2. David R. Cameron, "Social Democracy, Corporatism, and Labor Quiescence: The Representation of Economic Interest," in *Order and Conflict in Contemporary Capitalism*, edited by John Goldthorpe (New York: Oxford University Press, 1984).
3. Gösta Esping-Andersen and Walter Korpi, "Patterns of Power and Distribution in Postwar Welfare States," preliminary version, 1983. See also, Gösta Esping-Anderson and Walter Korpi, "Social Policy as Class Politics in Post-War Capitalism: Scandinavia, Austria, and Germany," in *Order and Conflict in Contemporary Capitalism*, edited by John Goldthorpe (New York: Oxford University Press, 1984).
4. Peter M. Lange and Geoffrey Garrett, "The Organizational and Political Determinants of Economic Performance, 1974–1980," prepared for the Fourth Conference of Europeanists, Washington, D.C., October 1983. A July 1984 revision is the source used here. A further revision is in *Journal of Politics* 47 (3) (August 1985): 792–827.
5. Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982).
6. Kelvin Lancaster, "The Dynamic Inefficiency of Capitalism," *Journal of Political Economy* 81 (1973): 1092–1109; Adam Przeworski and Michael Wallerstein, "The Structure of Class Conflict in Advanced Capitalist Societies," *The American Journal of Political Science* 76 (1982).
7. Lange and Garrett, "The Organizational and Political Determinants," p. 42. In a subsequent paper, the authors provide strong evidence that the argument holds, for the period in question, when position in the international economy is taken into account. Peter Lange and Geoffrey Garrett, "Performance in a Hostile World: International Determinants of Economic Growth In the Advanced Capitalist Democracies, 1974–1980," paper prepared for the Southern Political Science Association Annual Meeting, Savannah, November 1984.
8. Fritz W. Scharpf, "The Political Economy of Inflation and Unemployment in Western Europe: An Outline," *Discussion Papers* (Berlin: International Institute of Management, December 1981), pp. 13–15.

9. Unemployment and inflation are obviously not uniformly inversely related, as the coexistence of low unemployment and low inflation, as well as stagflation, indicates. But it is difficult to see how the continued existence of trade-offs between them, however changing, can be denied after such a large reduction in inflation has accompanied such a large increase in unemployment as occurred in the 1980s.
10. Scharpf, "The Political Economy," pp. 10–11.
11. William E. Connolly, *The Bias of Pluralism* (New York: Atherton Press, 1969); Charles E. Lindblom, *Politics and Markets: The World's Political-Economic System* (New York: Basic Books, 1977), chaps. 13–15.
12. John T. Woolley, "Central Banks: Influence and Independence," in *The Politics and Sociology of Inflation and Recession*, edited by Leon N. Lindberg and Charles S. Maier (Washington, D.C.: Brookings Institution, 1985); Gerald Epstein, "Domestic Stagflation and Monetary Policy: The Federal Reserve and Hidden Election," in *The Hidden Election*, edited by Thomas Ferguson and Joel Rogers (New York: Pantheon Books, 1981).
13. John Zysman, *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change* (Ithaca: Cornell University Press, 1983).
14. David R. Cameron, "The Expansion of the Public Economy: A Comparative Analysis," *American Political Science Review* 4 (1978); Peter J. Katzenstein, "The Small European States in the International Economy: Economic Dependence and Corporatist Politics," in *The Antimonies of Interdependence*, edited by John G. Ruggie (New York: Columbia University Press, 1983).
15. See notes 1, 2 and 3. See also Douglas A. Hibbs, Jr., "Political Parties and Macroeconomic Policy," *American Political Science Review* 71 (1977): 1467–87. For diverse interpretations, see Harold L. Wilensky, *The Welfare State and Equality* (Berkeley: University of California Press, 1975); Larry J. Griffin, Joel A. Devine, and Michael Wallace, "On the Economic and Political Determinants of Welfare Spending in the Post–World War II Era," *Politics and Society* 12 (1983): 331 –72; Heidenheimer et al., *Comparative Public Policy*, pp. 257–81; Andrew Martin, *The Politics of Economic Policy in the United States: A Tentative View from a Comparative Perspective* (Beverly Hills: Sage Publications, 1973).
16. Robert O. Keohane, "The World Political Economy and the Crisis of Embedded Liberalism," in *Order and Conflict in Contemporary Capitalism*, edited by John Goldthorpe (New York: Oxford University Press, 1984). I rely heavily on Keohane's view that U.S. policy underpinned the growth of employment and the welfare state in Europe, although responsibility for the view presented in this paper is solely mine. It should be added that the United States exerted decisive influence on the domestic politics of Germany, Italy, France and Japan to assure "the victory of pro-capitalist coalitions," as Keohane puts it. The interaction of U.S. and Soviet influence in these countries weakened labour movements in various ways and therefore the political basis for full employment and the welfare state, while Soviet dominion in Eastern Europe, of course, eliminated democracy there altogether. On the U.S. role, see also Charles S. Maier, "The Politics of Productivity: Foundations of American International Economic Policy after World War II," in *Between Power and Plenty*, edited by Peter J. Katzenstein (Madison: University of Wisconsin Press, 1978).
17. The following account is based primarily on Richard N. Gardner, *Sterling-Dollar Diplomacy: The Origins and the Prospects of Our International Economic Order*, new, expanded edition (New York: McGraw-Hill, 1969); supplemented by Fred L. Block, *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present* (Berkeley: University of California Press, 1977); Lloyd C. Gardner, *Economic Aspects of New Deal Diplomacy* (Boston: Beacon Press, 1971); Maier, "The Politics of Productivity;" Gerald M. Meier, *Problems of a World Monetary Order*, 2d ed. (New York: Oxford University Press, 1982).
18. Block, *The Origins*; R.N. Gardner, *Sterling-Dollar Diplomacy*. The Beveridge report on full employment was a major statement of a view approximated in varying degrees in Britain.
19. Block, *The Origins*; L.C. Gardner, *Economic Aspects*; R.N. Gardner, *Sterling-Dollar Diplomacy*; Maier, "The Politics of Productivity."

20. *Social Insurance and Allied Services*, a report by Sir William Beveridge (London: H.M.S.O., 1942); Beveridge, *Full Employment*.
21. Samuel H. Beer, *British Politics in the Collectivist Age* (New York: Alfred A. Knopf, 1965), pp. 212–16, 302–17. Beer's book is the principal source for the account of British developments in this period.
22. J. Joseph Huthmacher, *Senator Robert F. Wagner and the Rise of Urban Liberalism* (New York: Atheneum, 1968), pp. 292–99; Stephen Kemp Bailey, *Congress Makes a Law* (New York: Columbia University Press, 1950).
23. Walter Dean Burnham, "The Changing Shape of the American Political Universe," *American Political Science Review* 59 (1965): 7–28. His *Critical Elections and the Mainsprings of American Politics* (New York: Norton, 1970), and "The Appearance and Disappearance of the American Voter," in *The Current Crisis in American Politics* (New York: Oxford University Press, 1982), are principal sources of the discussion of American politics.
24. Barrington Moore Jr., *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston: Beacon Press, 1966), chap. 3; C. Vann Woodward, *The Strange Career of Jim Crow*, 2d rev. ed. (New York: Oxford University Press, 1966); J. David Greenstone, *Labour in American Politics* (New York: Vintage Books, 1970); Richard Franklin Bensel, *Sectionalism and American Political Development 1880–1980* (Madison: University of Wisconsin Press, 1984).
25. Burnham, *Critical Elections*, pp. 111, 131–32.
26. James T. Patterson, *Congressional Conservatism and the New Deal: The Growth of the Conservative Coalition in Congress, 1933–1939* (Lexington: University of Kentucky Press, 1967); Nelson Lichtenstein, *Labour's War at Home: The CIO in World War II* (New York: Cambridge University Press, 1983); Kim McQuaid, *Big Business and Presidential Power* (New York: William Morrow, 1983).
27. McQuaid, *Big Business*; Bailey, *Congress Makes a Law*; L.C. Gardner, *Economic Aspects*; Michael Piore and Charles Sable, *The Second Industrial Divide* (New York: Basic Books, 1984), chap. 4; Samuel Bowles, David M. Gordon, and Thomas E. Weisskopf, *Beyond the Waste Land: A Democratic Alternative to Economic Decline* (New York: Anchor Press/Doubleday, 1983), chap. 4.
28. With respect to those issues, the United States and Britain had clearly conflicting interests over how much, and whose, discriminatory trade practices should be allowed. The United States used its bargaining power as a source of sorely needed funds to extract concessions. However, it could not keep the draft charter of an international institution to manage the trade regime, the International Trade Organization (ITO), from containing too many qualifications in the interest of full employment to have any chance of ratification by Congress, and the draft was withdrawn from consideration. In its place, the temporary arrangements under the General Agreement on Trade and Tariffs (GATT) became the durable form in which the postwar trade regime was institutionalized. For accounts, see R.N. Gardner, *Sterling-Dollar Diplomacy*; and Block, *The Origins*.
29. Fred C. Bergsten, Robert O. Keohane, and S. Joseph Nye, Jr., "International Economics and International Politics: A Framework for Analysis," in *World Politics and International Economics*, edited by Fred C. Bergsten and Lawrence B. Krause (Washington, D.C.: Brookings Institution, 1975), p. 15.
30. The rate at which foreign holders of dollars were taking the United States up on its pledge to redeem them in gold tripled in the last two years of the decade and, after slowing down, rose again to bring U.S. gold reserves down by 30 percent from 1957 to 1962. F. Ray Canterbury, *Economics on a New Frontier* (Belmont: Wadsworth, 1968), pp. 155–56.
31. The concept used is the Gross Liquidity Balance, consisting of all items other than "changes in official reserves and changes in liquid liabilities to private and official foreigners." Block, *The Origins*, p. 159. This is an indicator of the sensitivity of reserves to demand by foreign holders to increase or decrease their dollar holdings. Trade balance data from John S. Odell, *U.S. International Monetary Policy: Markets, Power, and Ideas as Sources of Change* (Princeton, N.J.: Princeton University Press, 1982), p. 203.

32. The simultaneous need for and precariousness of U.S. deficits has been referred to as the "Triffin paradox" in view of the attention focussed on it by Robert Triffin. See the discussion in Odell, *U.S. International*, pp. 84–96; and Block, *The Origins*, pp. 134–37, 159–63.
33. Odell, *U.S. International*, p. 361.
34. The definition of goals in the Kennedy campaign is described in Canterbury, *Economics*, pp. 48–57, 97; and Herbert Stein, *Presidential Economics: The Making of Economic Policy from Roosevelt to Reagan and Beyond* (New York: Simon and Schuster, 1984), pp. 89–101. For Richard Nixon's judgment concerning unemployment and his 1960 defeat, see Herbert Stein, *The Fiscal Revolution in America* (Chicago: University of Chicago Press, 1969), p. 370.
35. This summary and subsequent description of Kennedy-administration economic policy is drawn primarily from Canterbury, *Economics*; Stein, *Presidential Economics*; and Stein, *Fiscal Revolution*.
36. Canterbury, *Economics*, pp. 113–25. Election statistics in *The Statistical Abstract of the U.S.*
37. See also Grant McConnell, *Steel and the Presidency, 1962* (New York: Norton, 1963).
38. Stein, *Presidential Economics*, p. 103.
39. Stein, *Fiscal Revolution*, p. 411
40. Andrew J. Biemiller, *Labor Looks at the 88th Congress* (Washington, D.C.: American Federation of Labor and Congress of Industrial Organizations, 1964), p. 14.
41. James L. Sundquist, *Politics and Policy: The Eisenhower, Kennedy and Johnson Years* (Washington, D.C.: Brookings Institution, 1968), pp. 54–55.
42. For a fuller statement of the author's view, see Martin, *The Politics of Economic Policy*.
43. Sundquist, *Politics and Policy*, p. 47.
44. Stein, *Presidential Economics*, pp. 107–108.
45. Greenstone, *Labor in American Politics*, pp. 325–30, 339–43.
46. This is familiar history, but the author takes responsibility for the interpretation. Some support is found in Thomas Byrne Edsall, *The New Politics of Inequality* (New York: Norton, 1984), chap. 1; and Burnham, *The Current Crisis*, chap. 7.
47. Stein, *Presidential Economics*, pp. 118–22; Walter S. Salant, "The International Transmission of Inflation," in *Worldwide Inflation: Theory and Recent Experience*, edited by Lawrence B. Krause and Walter B. Salant (Washington, D.C.: Brookings Institution, 1977), pp. 185–87. Johnson's dilemma is described in McQuaid, *Big Business*, pp. 237–54.
48. The following discussion draws on accounts in Odell, *U.S. International Monetary Policy*; and Block, *The Origins*.
49. According to Francis Bator, a White House economist at the time, he and Treasury Secretary Fowler believed that "the primary fault lies . . . in the arrangements, the set of rules and practices that have governed international finance since Bretton Woods which were almost certain to land the world in hot water irrespective of the behavior of the U.S. payments deficit." Quoted in Odell, *U.S. International Monetary Policy*, p. 134. For the view that U.S. policy at the time was aimed at facilitating continuing U.S. deficits without having to cut back on either domestic or foreign policy goals, see David M. Calleo, *The Imperious Economy* (Cambridge: Harvard University Press, 1982), chap. 3; and Block, *The Origins*, pp. 189–93.
50. Odell, *US. International Monetary Policy*, pp. 173–80.
51. The following account of economic events and policy draws on Stein, *Presidential Economics*; Alan S. Blinder, *Economic Policy and the Great Stagflation* (New York: Academic Press, 1979); and Otto Eckstein, *The Great Recession* (Amsterdam: North-Holland, 1978). For purposes of consistency, however, all economic data are those published in recent issues of the *OECD Economic Outlook* unless otherwise indicated.
52. Odell, *U.S. International Monetary Policy*, chap. 4.
53. Blinder, *Economic Policy*, pp. 25–35; Eckstein, *The Great Recession*, chaps. 4–7.

54. While the impact of the unemployment constraint on Nixon's NEP is stressed here, Odell questions the widely held view that the NEP reflects a political business cycle strategy. *U.S. International Monetary Policy*, pp. 233–39, 263–67. He may be right that domestic political considerations motivating economic expansion do not explain the specific decision to close the gold window and the way it was done, but it is hard to see how the expansion could have been engineered without doing something about the constraints imposed by the dollar's role as it had come to be defined.
55. Eckstein, *The Great Recession*, chap. 8; Barry P. Bosworth and Robert Z. Lawrence, *Commodity Prices and the New Inflation* (Washington, D.C.: Brookings Institution, 1982). OPEC's success is, of course, not accounted for simply by the short-term commodity boom. It was the culmination of a long process by which U.S. power to maintain the oil regime it had established eroded. See Robert Keohane, "The International Politics of the 1970s Inflation," in *The Politics and Sociology of Inflation and Recession*, edited by Leon Lindberg and Charles Maier (Washington, D.C.: Brookings Institution, 1985).
56. Lucio Izzo and Luigi Spaventi, "Macroeconomic Policies in Western European Countries: 1973–77," in *Macroeconomic Policies for Growth and Stability*, edited by Herbert Giersch (Tübingen: J.C.B. Mohr, 1981), pp. 95–96.
57. Ibid., p. 99. This paper is the main source for the characterization of the oil-price shock's dual impact.
58. These developments are described in detail below.
59. The issue of factor shares is analyzed from both demand and supply sides in Michael Bruno and Jeffrey Sachs, *Economics of Worldwide Stagflation* (Cambridge: Harvard University Press, 1985).
60. Lange and Garrett, "The Organizational and Political Determinants," Table 1. Share of OECD GNP is for 1979 and is based on OECD data in *The Swedish Economy*, October 1980, Appendix Table 1. Trade share of Austrian GDP is average for 1970s, calculated from data in annual *OECD Economic Surveys: Austria*.
61. Fritz W. Scharpf, "Economic and Institutional Constraints of Full-Employment Strategies: Sweden, Austria and West Germany," *Discussion Papers* (Berlin: International Institute of Management, 1983), pp. 23–35.
62. The following account of Austrian politics and institutions draws on Scharpf, "The Political Economy" and "Economic and Institutional Constraints"; draft chapters, but not the published version, of Peter J. Katzenstein, *Corporatism and Change: Switzerland, Austria and the Politics of Industry* (Ithaca: Cornell University Press, 1984).
63. The following discussion is based primarily on the essay by Scharpf and on Wilhelm Hankel, *Prosperity Amidst Crisis: Austria's Economic Policy and the Energy Crunch*, translated by Jean Steinberg (Boulder, Col.: Westview Press, 1981). This is a report commissioned by the Austrian government.
64. Robert J. Flanagan, David W. Soskice, and Lloyd Ulman, *Unionism, Economic Stabilization, and Incomes Policy: European Experience* (Washington, D.C.: Brookings Institution, 1983), chap. 2.
65. Ibid.
66. Centralized control is assigned heavy weight in accounting for the lack of rank-and-file militancy in the late 1960s and for the enforcement of wage restraint generally in Leo Panitch. "The Tripartite Experience," in *The State and Economic Interests*, volume 32 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1986).
67. In addition to the works by Katzenstein cited earlier, see Charles S. Maier, "Preconditions for Corporatism," in *Order and Conflict in Contemporary Capitalism*, edited by John Goldthorpe (New York: Oxford University Press, 1984).
68. In addition to the works cited in notes 62 and 63, the following account of economic policy relies primarily on the annual *OECD Economic Surveys: Austria*. Data on economic magnitudes in the text are the latest available revisions by OECD and therefore do not always agree with data provided by the other resources.

69. *OECD Economic Surveys: Austria* (Paris: OECD, 1981).

70. Labour market trends are reviewed in Scharpf, "Economic and Institutional Constraints," pp. 24–25; Felix Butschek, "Full Employment During Recession," in *The Political Economy of Austria*, edited by Sven W. Arndt (Washington, D.C.: American Enterprise Institute, 1982); and *OECD Economic Surveys: Austria* (1983).

71. Ibid., pp. 48–49.

72. Scharpf, "Economic and Institutional Constraints," p. 26.

73. Hankel, *Prosperity Amidst Crisis*, chaps. 5 and 6.

74. The following discussion is based on the *OECD Economic Surveys: Austria*. The 1984 issue contains a special annex on public sector trends.

75. Scharpf, "Economic and Institutional Constraints," pp. 36–38. Schmidt is quoted in Robert D. Putnam and Nicholas Bayne, *Hanging Together: The Seven-Power Summits* (Cambridge: Harvard University, Press, 1984), p. 88.

76. Lange and Garrett, "The Organizational and Political Determinants," Table 1.

77. Soskice, Flanagan, and Ulman, *Unionism*, pp. 265–68; and Scharpf, "Economic and Institutional Constraints," pp. 27–31.

78. Ibid., p. 32.

79. Ibid., pp. 32–33.

80. *OECD Economic Outlook* 35 (July 1984), Tables R10 and R12.

81. Ibid., *OECD Economic Surveys: Germany* (1979). Employment data from 1983 issue. The international and domestic pressures for a shift in policy are described in Putnam and Bayne, *Hanging Together*, chap. 6.

82. On early FRG political development, see Guido Goldman, "The German Political System," in *Patterns of Government: The Major Political Systems of Europe*, 3d ed., edited by Samuel H. Beer and Adam B. Ulman (New York: Random House, 1973). For distribution of Bundestag seats, see Thomas J. MacKie and Rose Richard, *The International Almanac of Electoral History*, 2d ed. (London: Macmillan, 1982), p. 160.

83. On German unions and their relations with the SPD , see Andrei Markovits and Christopher Allen, "Trade Unions and the Economic Crisis: The West German Case," in *Unions and Economic Crisis*, edited by Peter Gourevitch et al. (London: George Allen and Unwin, 1984).

84. Scharpf, "The Political Economy," pp. 31–40; Peter J. Katzenstein, "West Germany as Number Two: Reflections on the German Model," in *The Political Economy of West Germany: Modell Deutschland*, edited by Andrei S. Markovits (New York: Praeger, 1982); Goldman, "The German Political System," and Maier, "The Politics of Productivity."

85. In addition to the sources cited in note 84, see also Jeremiah M. Riemer, "Alterations in the Design of Model Germany: Critical Innovations in the Policy Machinery for Economic Steering," in *The Political Economy of West Germany: Modell Deutschland*, edited by Andrei S. Markovits (New York: Praeger, 1982).

86. Katzenstein, "West Germany," pp. 200–202.

87. Ibid., p. 201; On the banks, see also Richard Medley, "Monetary Stability and Industrial Adaptation in West Germany," in U.S. Congress Joint Economic Committee, *Monetary Policy, Selective Credit Policy, and Industrial Policy in France, Britain, West Germany and Sweden* (Washington, D.C.: Government Printing Office, 1981); and Zysman, *Governments, Markets, and Growth*, pp. 251–66.

88. Katzenstein, "West Germany," p. 202.

89. Zysman, *Governments, Markets, and Growth*, pp. 316–17.

90. Katzenstein, "West Germany," p. 202.

91. Scharpf, "The Political Economy," p. 33.

92. A suggestive discussion of the limits of the SPD economic role is Jeremiah M. Riemer, "The Rise and Fall of Model Germany: Progress, Retrenchment, and Disorientation in Economic Policy During the Social Democratic Era, 1966–82," a study prepared for the Conference of Europeanists, Washington, D.C., 1983.

93. Katzenstein, "West Germany," p. 206.

94. Markovits and Allen, "The German Case," pp. 133–41, 160–66; Douglas Webber, "Combatting and Acquiescing in Unemployment? Crisis Management in Sweden and West Germany," in *West European Politics* 6 (January 1983).

95. On the threats of wage restraint to unions' internal cohesion, see Peter Lange, "Union Democracy and Liberal Corporatism," Western Societies Program, Occasional Paper 16 (Ithaca: Cornell University, 1984); Charles F. Sabel, "The Internal Politics of Unions," in *Organizing Interests in Western Europe*, edited by Suzanne D. Berger (Cambridge: Cambridge University Press, 1981); Andrew Martin, "Trade Unions in Sweden: Strategic Responses to Change and Crisis," in *Unions and Economic Crisis*, edited by Peter Gourevitch et al. (London: George Allen and Unwin, 1984) and Flanagan, Soskice, and Ulman, *Unionism*, especially chap. 11. Chap. 5 of the latter and Markovits and Allen, "The West German Case" are the principal sources of the following discussion.

96. Scharpf, "Economic and Institutional Constraints," Riemer, "Alterations in the Design of Model Germany," and *OECD Economic Surveys.*

97. Ibid., 1975, p. 7.

98. Michael Bruno and Jeffrey Sachs, "Supply versus Demand Approaches to the Problem of Stagflation," and "Comments" by James Tobin and Edmond Malinvaud, in *Macroeconomic Policies for Growth and Stability*, edited by Herbert Giersch (Tübingen: J.C.B. Mohr, 1981). Bruno and Sachs, *Economics of Worldwide Stagflation*; Edmond Malinvaud, *The Theory of Unemployment Reconsidered* (Oxford: Blackwell, 1977). The Discussion in West Germany is reported in Flanagan, Soskice, and Ulman, *Unionism*, pp. 266–75.

99. Markovits and Allen, "The German Case," pp. 132–33; Putnam and Bayne, *Hanging Together*, p. 88; Riemer, "The Rise and Fall."

100. Ibid.; Jeremiah Riemer, "Parties and Economic Policy in the Federal Republic of Germany: Has There (Ever) Been a *Wende*?" paper presented at the American Political Science Association Annual Meeting, August 1984; Reinhard Zintl, "Taxes, Investment, and the Politics of Economic Policy: The Federal Republic of Germany," paper presented at the Harvard University Center for European Studies, 1984; Hans-Werner Lohneis, "The West German Election of 1983," *West European Politics* 6 (January 1983).

101. *OECD Employment Outlook* (September 1984), Tables 4 and 5.

102. John Williamson, "Global Macroeconomic Strategy," in *Promoting World Recovery: A Statement on Global Economic Strategy* (Washington, D.C.: Institute for International Economics, 1982), pp. 18–19. *OECD Economic Outlook*, recent issues.

103. Blinder, *Economic Policy*; Stein, *Presidential Economics.*

104. *OECD Economic Surveys: United States* (1979 and 1980).

105. Stein, *Presidential Economics*; Turnout rates in Walter Dean Burnham, "The 1980 Earthquake: Realignment, Reaction, or What?" in *The Hidden Election*, edited by Thomas Ferguson and Jack Rogers (New York: Pantheon Books, 1981), p. 101.

106. Ibid., p. 131.

107. Stein, *Presidential Politics.*

108. John L. Palmer and Isabel V. Sawhill, *The Reagan Record: An Assessment of America's Changing Domestic Priorities* (Cambridge, Mass.: Ballinger, 1984); Edsall, "The New Politics," chap. 6.

109. The following account draws on Putnam and Bayne, *Hanging Together*, chap. 6. See also, Epstein, "Domestic Stagflation"; Robert Keohane, "United States Foreign Economic Policy Toward Other Advanced Capitalist States: The Struggle to Make Others Adjust," in *Contemporary Issues in American Foreign Policy*, edited by Kenneth Oye (New York: Longman's, 1979); and Calleo, *The Imperious Economy*, chaps. 8 and 9.

110. On the further redistribution of political power from labor to business during the Carter years, see Edsall, *The New Politics.*

111. C. Fred Bergsten, *The United States in the World Economy: Selected Papers of C. Fred Bergsten, 1981–82* (Lexington: Lexington Books, 1983), p. 44. See also, "Telling Europe to Save Itself: The U.S. Urges a Bigger Dose of Capitalism Abroad to Tame the Dollar," *Business Week*, January 28, 1985: pp. 42–43.

112. Andrew Martin, "Economic Stagnation and Social Stalemate in Sweden," in U.S. Congress, Joint Economic Committee, *Monetary Policy, Selective Credit Policy, and Industrial Policy*.

113. Peter Hall, "The Role of the State in the Decline of the British Economy," in *The Decline of the British Economy*, edited by Bernard Elbaum and William Lazonick (New York: Oxford University Press, forthcoming); and Willem H. Buiter and Marcus H. Miller, "Changing the Rules: Economic Consequences of the Thatcher Regime," *Brookings Papers on Economic Activity* 2 (1983).

114. The impact on Europe of the U.S. policy mix — a very tight monetary policy to offset loose fiscal policy, resulting from the combination of large tax cuts (skewed to increase inequality) and large increases in military expenditures — has been summed up as follows:

> High U.S. interest rates have prevented European countries from lowering their interest rates to stimulate output in Europe, as such lowering of interest rates would result in currency depreciation and inflation. Worse, the tightening of U.S. monetary policy, while it reduces inflation there, increases inflation in Europe without much of an increase in European growth because Europe suffers terms of trade deterioration that offsets in part the benefits to output from increased competitiveness. Europe is in the awkward position of having to tighten its monetary policy to fight the imported inflation (due to U.S. deflation) thus losing the benefits from the added growth.

Alexander Swoboda, "European-U.S. Policy Interdependence," in *Exchange Rate Regimes and Policy Interdependence*, edited by A.W. Hooke (Washington, D.C.: International Monetary Fund, 1983), pp. 94–95.

115. See Williamson, *Promoting World Recovery*.

116. The conclusion reached in this paper is similar to that in Leon N. Lindberg, "The American Economy in the 1980s: Business (Cycles) as Usual or a New Surge of Growth?" in *American Futures: Political and Economic Trends and Prospects*, edited by Leon N. Lindberg (Stockholm: Utrikespolitiska institutet, 1983). For a somewhat more optimistic view, see Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, N.J.: Princeton University Press, 1984).

PART TWO

The Canadian Experience

5

Canadian Business and the State

WILLIAM D. COLEMAN

Introduction

In 1975, the federal government became interested in establishing a national master specification code for the construction industry. The question was how to proceed. The task could have been handed over to the Department of Public Works or the National Research Council, the two federal agencies with the heaviest involvement in the construction industry. However, another approach was used. The Department of Public Works contacted a business-interest association, Construction Specifications Canada (CSC), which represents professional specification writers and has an extensive membership of construction firms, as well. This association has direct access to Canadian expertise in specifications writing and a broad enough base to communicate with the entire construction industry. In 1977, the president of the CSC and the Deputy Minister of Public Works signed an agreement whereby the CSC would supervise the development of a national code and would eventually promote and distribute it within the private sector. The CSC then formed a broad working committee composed of the following associations: Association of Consulting Engineers of Canada, Canadian Council of Professional Engineers, Canadian manufacturers' Association, Canadian Construction Association, Royal Architectural Institute of Canada, Standards Council of Canada, and the Canadian Institute of Quantity Surveyors. The committee completed its work in 1980, and a national code was published soon afterwards. The working committee has since been reconstituted to keep the specifications up to date.

This example illustrates how a sector of business, through a representative organization, can become formally involved in the formulation

and implementation of public policy. This involvement required close cooperation between business and government and depended on mutual trust and respect. Presumably, the public interest was served. Very few Canadians know about this event; it is hardly the stuff of headlines. Even more surprisingly, it is probable that few business people in the construction industry took much note of the occurrence, despite its significance for general contractors and consumers. Yet this example of business and government working together closely and harmoniously is not by any means an isolated case. Many more instances could be singled out and described in a variety of economic sectors.

Such examples provide a sharp contrast to the popular view of relations between government and business, both in Canada and in other liberal democratic states. According to this view, business and government are sharply opposed to each other and in almost constant conflict. Business persons are perceived to be unhappy with the isolation of government officials and their lack of understanding and appreciation of the market system and the difficulties in running a firm. They point to overregulation and poor management within government itself, irresponsible fiscal and monetary policies, excessive government ownership, and the high cost of government (Murray and McMillan, 1983, p. 596). On the other side, government officials deplore business people's lack of knowledge of the complexities of modern decision making and the various elements of the political process itself. Business people look back nostalgically to the days of C.D. Howe, after World War II. During this period, they believe, the interests of business and government were assumed to be the same, but those days seem to them to be gone forever (Gillies, 1981, p. 6). A corporation can be an effective producer of goods and services and yet be attacked on other grounds, a situation supposedly inconceivable in the Howe era. Now, business firms are expected to assume responsibility for the impact of their activities on customers, workers and the people who live near their factories. No longer will a corporate spokesperson automatically be granted credibility on the basis of his or her position in society.

Both the cooperation exemplified by the national building code and the conflicts highlighted in popular images capture elements of the relationship between the state and business. These contrasting experiences are rooted in the very complexity of the relationship, which operates at three distinct levels: the persistence of the capitalist economic system itself, the fortunes of particular sectors of the economy, and the day-to-day operation of individual firms. What might be good for business at one of these levels might not be good at another. For example, protecting the Canadian clothing industry with border measures may do wonders for indigenous clothing firms, yet harm clothing retailers and weaken the overall performance of the economy. This complexity results in a relationship between business and the state that

is both privileged and conflictual, cooperative yet at times marked by the drawing of broadswords.

This study argues that the relationship between business and government in Canada is simultaneously privileged and conflictual. In fact, both the privileged position of business and the potential for conflict are growing daily, since the nature of economic policy making in advanced market economies demands close cooperation between business and the state. As the ties between the two continue to develop, the mechanism increasingly favoured for managing these relationships will be the business-interest association. Given this expectation, the future does not bode well for relations between the state and business in Canada. The system of business associations is not well organized to provide the systematic consultation the state needs. The result is that the natural tensions between business and the state are likely to be exacerbated, not lessened, when attempts at consultation are made.

The first section of this study examines how the nature of present-day economic policy results in a relationship between business and the state that is both privileged and conflictual. The second section then assesses the capacity of business to share in policy making, by examining the various mechanisms used to approach the state, and by analyzing in some depth the coordinating capacity of business-interest associations in Canada. The third section considers what the structure of business associations means for the consultation process, pointing out both strengths and weaknesses, while the final section investigates the implications that a more structured consultative process might have for our system of parliamentary democracy.

A Privileged Yet Conflictual Relationship

Charles Lindblom (1977, p. 5) notes that liberal democracies are found only in societies with market-based economies. In this way, he is alluding to the very particular relationship between Canada's political and economic systems. The coming together of popular democracy and capitalism was neither expected nor viewed with much optimism by many important nineteenth-century political theorists. Marx, on one side, and J.S. Mill and de Tocqueville, on the other, were convinced that a capitalist economic system and democracy based on universal suffrage could not mix (Offe, 1983, p. 226). The combination would produce a particular tyranny of democratic mass politics, according to the latter observers, or the overthrow of bourgeois society, in the view of the former. However, as events have taken their course, neither doomsday scenario has come to pass. The compromise that forestalled them has been described in the following terms:

> Those who do not own instruments of production consent to the institution of the private ownership of capital stock while those who own productive

instruments consent to political institutions that permit other groups to effectively press their claims to the allocation of resources and the distribution of output. (Przeworski and Wallerstein, 1982, p. 54)

The specific terms of this compromise guarantee business a privileged position in society, while generating conflict with the state. The privileged position of business is a consequence of the distribution of power between the public and private sectors. In market economies, the power to invest, to withhold a part of society's resources from direct consumption, and to reallocate those resources to replace or add to the instruments of production is largely in private hands. Thus, "decisions on the allocation of resources to different lines of production, on the allocation of the labour force to different occupations and workplaces, on plant location, the technologies to be used in production, the quality of goods and services, innovation of new products. . . ." are all matters largely entrusted to private enterprise in our society (Lindblom, 1977, p. 171).

This division of power has profound implications for the relationship between business and the state. Like other interests in society, business has a long list of benefits and concessions that it seeks from the state, but the economic power of business means that governments must be particularly sensitive to its demands. The creation of jobs, the level of prices, the amount of production, the standard of living are all matters that remain largely in the hands of the private sector. If the state is to exercise its responsibilities to the general public, it must heed what business does, collect statistics to monitor its performance, discuss the economic future with its representatives, and generally ensure that it performs efficiently. This sustained attention which the state gives to business is the first component of its privileged position. No other group in society merits this unremitting interest.

This privileged relationship is reinforced by the state's dependence on business for two critical resources: information and support. The amount and character of information that the state requires varies with the type of policy envisaged. Of the three types of policy suggested by Lowi (1964) — distributive, regulatory and redistributive — information needs will be highest for the former two types. Following Stanbury and Lermer (1983), regulatory policies are construed as those affecting the conditions under which goods and services are produced and sold, as well as the characteristics of the goods themselves. Administration of such policies requires information that is highly detailed, technical and product-specific. Moreover, professional expertise is required for its collection and interpretation. The information needed for distributive policies differs, as it is more systemic in character. Policy makers require knowledge about the dynamics of the system they are concerned with, the nature of the connections and interdependencies among its separate parts, and its present state (Mayntz and Scharpf, 1975). For both these

policy types, much of the critical information is in the hands of business. It cannot simply be collected by asking firms to fill out statistical questionnaires; it must be assembled, and advice must be given on its interpretation by business. Often business has expertise in these matters not possessed by state agencies.

Business must also provide support for, and compliance with, public policies. In order to implement many policies, the state requires the compliance and in some instances the active collaboration of business. Legal authority and a treasury balance are necessary but increasingly insufficient bases for administration in the modern state (Averyt, 1975). Government agencies must not only devise policies, but they must also work to create adequate consensus among the firms affected if they are to succeed in implementing them.

Several other implications flow from the division of responsibilities between business and the state. First, the political power concentrated in the state is indirectly dependent on the performance of business (Offe and Ronge, 1975, p. 139). The generation of resources by the state, whether through the mechanisms of taxation or of borrowings on the capital market, is directly affected by the level of profits and the accumulation of capital in the private sector. "The occupant of a power position in the capitalist state is in fact powerless *unless* the volume of the accumulation process allows that individual to derive the material resources . . . necessary to promote any political ends" (p. 139).

Another implication concerns the resources available to business for its own political activities as a pressure group. Its controlling role in the economy gives it access to larger resources than most other social categories enjoy (Lindblom, 1977, p. 193ff). Company funds are readily diverted to political activities, be they contributions to political parties, fees to interest associations, the creation of government-relations departments within firms, or the retention of permanent lobbyists in the capital. The result is that, comparatively speaking, business has more political resources at the ready than any other social category. It is more than just another interest group in the pluralist heavens. It has been shown that business uses these various organizations to gain special access to government, particularly to the executive branch. Presthus (1974, p. 153) points out that business associations in Canada were able to focus heavily on the public service and the cabinet, while labour was forced to look more to the legislature as well as to the public service. He found that functional linkages between the bureaucracy and business associations were much more effective than those developed by labour and other social groups (p. 218). This is not surprising, since the range of business interests of concern to the state are broader than those of any other social groups.

How, then, is it possible that the privileged relationship between business and the state is also characterized by conflict? The answer lies

in the specific terms of the most recent compromise involving the practice of democracy and the operation of the capitalist system. Post-war policies influenced to a degree by Keynes' theories promised that private ownership of production could be twinned with democratic management of the economy. "Democratic control over the level of unemployment and the distribution of income became the terms of the compromise that made democratic capitalism possible" (Przeworski and Wallerstein, 1983, p. 54). This compromise was constructed on the basis of a dual program: full employment and equality. The first program implied regulation of employment through the stabilization and management of demand. The second entailed the development of the range of social services that has come to be known as the "welfare state." In both cases, the policy objectives involved an expansion of state intervention in the economy, whether through macroeconomic management or the regulation of the labour force. The privileged position of business was maintained in this "agreement," while the range of issues on the agenda between business and the state increased exponentially. Conflict would arise for several reasons.

First, the management of macroeconomic demand is an immensely complex process. There are no infallible guides on how it should be handled. Moreover it remains unclear how far the goals of full employment and equality can be pursued before economic growth, which generates the resources needed for these goals, is itself compromised. These two issues alone set the stage for disagreement between government and business.

A second source of conflict is the increasingly complex set of policy instruments that have come to be associated with the above objectives: employment policies, family policies, housing policies, training policies, and so on. The use of these instruments created conflict between different sectors of business and, hence, between sectors and the state. Complementing the use of these instruments was the organization within the Canadian government, in the 1960s, of "Departments of Microeconomics": the departments of Industry, Regional Economic Expansion, Manpower and Immigration, the Marketing and Economics Branch of Agriculture, and so on. Conflicts between different sectors of business became politicized and were waged increasingly within the bowels of the state, both within and between these departments (Mahon, 1979). Whatever the decision made, it was sure to be sniped at by one or more sectors of business. Virtually continuous conflicts among departments were to a certain degree extensions of conflicts among sectors of the economy. What resulted was nearly constant criticism of some departments of governments by some sectors of industry.

The creation of these "Departments of Microeconomics" was linked not only to the implementation of the types of policies noted above, but also to the growing failure of macroeconomic policy in general. The

Canadian economy came out of the recession of the late 1950s much more slowly than those in charge of the economy had expected. Additional microeconomic policies were developed to speed up the process. This recession presaged the more serious economic problems that became politicized in the late 1960s, and that have dominated economic policy making ever since. During this period, the Canadian economy, like many others in the West, experienced rising inflation and a decline in the rate of growth. Both problems are remarkably unresponsive to the traditional macroeconomic cures.

A third source of conflict, emphasized by Offe and others, arose from the fact that the various attempts to solve the problems of demand management made it more difficult for the economy to find solutions for production problems. The mix of macro-and microeconomic instruments has inhibited the positive function that crises used to perform: that of destroying unproductive elements in the economy and encouraging innovation and the use of more advanced technology. The rigidity introduced into the labour market under the welfare state is one common example. Employers are restricted in their ability to hire and fire workers, to implement new technology, and to adjust wages. Through its microeconomic policies, the state introduces further rigidities by sheltering and protecting sectors from the effects of market forces and by introducing non-market rationality into the marketplace through its control of sectors such as energy and telecommunications.

Consequently, as growth rates fall and business finds itself unable to adapt as it would like, it begins to see the state itself as the problem. State policies appear to prevent adaptation, the large public bureaucracies that have grown up over the past thirty years have their own vested interest in the status quo, and large government spending makes investment capital more expensive for private firms to obtain. This kind of critique has come to be the centrepiece of conservative thought now making its voice heard in the Liberal and Progressive Conservative parties in Canada. It enjoys greater support from business than from any other social group. The state is seen more and more as part of the problem, as the Keynesian-based compromise between democracy and capitalism comes under stress.

In summary, the linkage between a democratic political system and a capitalist economy is one that depends on business being accorded a privileged relationship with the state. There is no other way to operate if a market economy is to be maintained. At the same time, to be democratic, the state must listen to and take some account of other groups besides business. Yet in reaching a compromise between these groups and business, it has exacerbated political divisions within the business community that have reverberated within its own halls. To maintain social peace in the immediate postwar period, it has built rigidities into the economy that have made it difficult to respond to a decline in the

growth rate. Each of these circumstances creates a basis for conflict between the privileged business group and the state.

It is important to emphasize, however, that this conflict arises from the reciprocal dependency of the state and business that is required to manage the economic system in this modern era. It is this closeness that underlies such partnerships as the one involving Construction Specifications Canada with which this study began. Without such collaboration, many economic policies will fail.

Nonetheless, the need for collaboration does not imply a harmonious relationship. We have described the business-state relationship in Canada as one of bargaining and negotiation, and in such a process there will be tension, breakdowns and posturing. Business will seek to minimize the information it provides to the state, endeavouring to maximize its own control of the means of production and disposition over profits. The state will be tempted to limit the sphere of private conduct and maximize its scope for independent action. To reach agreement will not be easy, and collaboration and conflict will continue to be partners.

The Political Organization of Business

Having accepted the need for close collaboration between business and the state, we shall now examine the modes of interchange between the two parties. From the point of view of the business firm, the business-state relationship can be entered into directly or through a group. The head of a firm, a government-relations department in a firm, or a personal lobbyist paid by the firm may approach and deal with government. The individual business may join with others, either in an informal arrangement formed to deal with one specific issue at hand, or in a formal organization possessing a constitution and a staff: that is, an interest association. Of all these means for conducting business-state relations, pressures on both the state and the firm increasingly favour business-interest associations.

Of course, the question of the proper mode for interchange between industries and government may itself be a political issue. A government may decide that as a matter of policy it will deal only with firms and not with associations, or vice versa. Grant (1984a) suggests that a government preference for firms is evident in Britain, where both Conservative and Labour governments of the past few years have emphasized "bottom-up" contacts. However, even if firms are favoured over associations as a matter of public policy, the dynamics of making policy will encourage governments to turn to associations, or to create them if they do not exist.

From the point of view of government, there are a number of advantages in dealing with business through associations. First, as we have seen, the makers of economic policy have increasingly supplemented

macroeconomic policy instruments that allow the targeting of particular economic sectors. A quick glance through a listing of federal government programs over the past decade shows programs directed to sectors such as textiles and clothing, shipbuilding, electronics, food, forestry, machinery and pharmaceuticals. Most regulatory programs also apply to specific sectors and subsectors. In fashioning and implementing such policies, the state has traditionally sought the collaboration of the sector concerned. The usual way of dealing with the sector is to work with a collective organization that represents that industry.

Why should this be the method used? Unless the sector is highly oligopolistic, a point to be taken up later, it would be impossible for a public official to consult with every firm potentially affected by a policy. Even if an official had enough time to consult with every major player, he or she would undoubtedly discover that differences exist among them. A second round of consultations would become necessary to see if consensus could be reached, then a third, and so on. The time involved would be excessive, and the official might be tempted to go it alone. To do so, however, would decrease the policy's chances for success. By dealing with an association, on the other hand, the official is able to put the burden of finding consensus on the industry itself (Streeck 1983c). It may turn out that no consensus is possible, or that any ground of agreement is so minimal as to be meaningless. If so, the official will need to proceed without consensus or drop the policy initiative altogether. In the majority of cases, however, a good, effective association can work out a reasonable industry position. In this way, associations are reducing the overload that, according to many observers, is currently besetting government. "Supply-side politics" are put into practice.

Considerations of legitimacy also come into play. Because an official is unable to speak with all individual firms concerned, any attempt to deal directly with firms will be a selective one. The difficulty is to choose which ones will be consulted. Virtually any criteria will leave the official open to charges of favouritism or possessing a poor or insufficient knowledge of the industry concerned. On the other hand, if the government deals with an association, then the legally constituted, voluntary representative of the industry which is open to all firms will be involved. The industry itself is given the responsibility to find the firms and expertise most relevant to a policy.

Another advantage of working with associations is that these bodies might themselves be used as a policy instrument (Streeck and Schmitter, 1984). This has been particularly important in the area of research and development. Such associations as the Housing and Urban Development Association of Canada, recently renamed the Canadian Home Builders Association (energy efficiency), the Society of the Plastics Industry of Canada (plastics processing), the Canadian Masonry Contractors Association (masonry construction), and the Machinery and

Equipment Manufacturers Association of Canada (CAD/CAM) have been the agents of the federal government in establishing research programs and in some cases permanent research institutes for their specific sectors.

Another policy area where associations have been prominent as instruments is social regulation. There are real limits to the ultimate effectiveness of legal regulations; it takes more than printing rules in *The Canada Gazette* to secure compliance, and governments have increasingly involved associations directly in the regulatory process.

> The same associations that negotiate the terms of regulation of their members' behaviour, are charged as private governments with responsibility to enforce them. As a result, not only do considerations of enforcement enter directly into the process of policy formation, . . . but the agents of implementation . . . are closer to the target group (their members) than state bureaucracies, and they have more intimate knowledge of its situation and concerns. (Streeck and Schmitter, 1984, p. 29)

In Canada, the regulation of the advertising of prescription drugs and the creation of most industry standards for products are good examples.[1] State officials often see associations as providing the best instrument for realizing their objectives and increasing the likelihood of compliance.

In addition to these factors that encourage state officials to deal with associations, there are parallel pressures on firms to make more use of associations. In his view of the factors contributing to the problems experienced by business when dealing with government, Gillies (1981) stresses the inability of business to adapt to the more collective mode of decision making introduced to the Cabinet by Trudeau and developed over the past decade. Pross (1975) notes that this system has added to the number of officials and agencies involved in a decision, and forced those involved in policy making to draw up more formal proposals and to take account of other points of view. In addition, parties involved in the process must be willing to engage in public discussions before legislative committees, administrative tribunals and the citizenry at large. For the vast majority of firms, such a burden is heavy, requiring political expertise, time and energy. For a few very large firms, a specific government-relations division may prove effective, but virtually all others must rely on an association. This type of organization can concentrate its efforts to fill the void that the firm itself cannot.

In addition, business has its own concerns about legitimacy. Confronted more and more by sophisticated public interest groups and single-issue movements, business must work harder to ensure that its position and role in the policy-making process are perceived as legitimate (Pross, 1975). The public must be convinced of the need to support business. Such convincing requires a professional public relations effort, another task that lies beyond the capability of most individual firms. As

an alternative, public relations committees are formed within associations, and these are serviced by professionals on the association staff.

In short, business firms wishing to "go it alone" will have difficulty. The kind of information that the state needs is usually at a subsectoral or sectoral level, and is beyond the capacity of individual firms to acquire. By approaching government on more general policies, the firm is likely to be perceived as pleading for a narrow selfish interest and to be dismissed or informed that other points of view are required. When an association is involved, competing firms are harnessed to watch over one another, and their relationship results in a kind of accountability.

Some qualifications to this argument must be made when we are speaking of large firms in tightly oligopolistic sectors. Officials may contact such firms directly, without creating an overwhelming burden on their time. Similarly, large firms are more likely to have the resources to sort out government's complexity and to engage in public relations activity to improve their corporate image and that of their industry. Nevertheless, associations continue to play a central role. The government may still favour having industry reach consensus on sectoral policies and take into account all firms involved. This is more easily done if an association exists. Furthermore, use of an association in an oligopolistic sector may add legitimacy to the dealings of large firms with government. This is particularly true if government wishes to involve the industry in the administration of policy.

The evidence available suggests that working through trade associations is the prime method used by Canada's largest firms. Gollner (1983, p. 43) found in a survey of corporations drawn from the *Financial Post* 500 that trade associations were chosen as the most significant method used for approaching government. This method was backed up by frequent visits to Ottawa by senior executives of the corporations. The establishment of government-relations divisions within firms, a more and more frequent occurrence, and involvement in association affairs are not mutually exclusive activities. In fact, they complement each other (Grant, 1984a).

Government-relations divisions are used for several different purposes. First, they may be assigned responsibility for watching over a firm's special interest in a particular policy area. (Taxation, tariffs and dumping are common examples.) Secondly, large firms often have interests that span a variety of sectors and are not completely covered by any one association. Government-relations personnel can monitor government activity in each sector and recommend appropriate action to their chief executive officers. Such recommendations might involve encouraging a particular association to fight or support a policy, or contacting a politician to request a particular firm-centred hearing.

Thirdly, certain policy instruments (government-guaranteed loans, export financing) are inherently firm specific. Government-relations

divisions can be assigned responsibility for preparing the application needed for such aid and shepherding it through the bureaucracy. Associations are naturally reluctant to involve themselves in such tasks. They can be quite time consuming, and the association might find itself in the awkward position of being asked by officials to advise which applications are better, thereby forcing them to choose among members. In such instances, it will be difficult to avoid charges of favouring some members over others, and the entire collective enterprise of associative action may quickly be imperilled.

Fourthly, government-relations divisions can be used effectively as supplements to associations' lobbying efforts. The association will present the industry's case along with that of the government-relations division of the firm, thereby intensifying the pressure. Government-relations personnel are often themselves members of association committees, which enlarges the potential for sophisticated and coordinated lobbying campaigns involving both firms and associations.

To summarize, in virtually every sector of the economy today, there are policy instruments, regulatory and other, designed to achieve objectives specific to that sector. These policies will succeed only if business provides the state with specialized information and advice in drafting the policy. In some cases, business will need to be actively engaged in implementation. Given the importance of such intervention and the damage that might result from misconceived information, business cannot sit back and hope that state officials will make a correct guess, nor can the state simply legislate and hope that business will follow through. Closer collaboration is required. Both the exchange of information and compliance, a necessary part of economic policy making, is increasingly coordinated by business-interest associations. No other organizational form promises to be as effective in this regard.

Business Associations in Canada

This examination is based on three interrelated studies, the details of which are set out in the Appendix to this paper. The first step is an attempt to identify all the nationally relevant, economic interest associations that have operated in Canada since Confederation. An association was defined as "nationally relevant" if it met at least one of the following three criteria:

- it claimed to represent an economic interest on a national basis;
- it claimed to represent an economic interest in a province or group of provinces that accounted for 35 percent of the national production or employment in the sector concerned; and
- it claimed to represent an economic interest in Quebec or French Canada that paralleled a national association.

By this standard, there have been 660 "nationally relevant" business-interest associations in Canada since Confederation, of which 482 continued to exist in 1980. In addition, there have been 125 agricultural associations, of which 102 are still active in 1980. These business associations have organized industries that range across the economy, as the information in Figure 5-1 indicates. The largest number of groups is found in the food-processing industry, the sector of manufacturing that accounts for the largest proportion of Canadian industrial output. Some sectors, such as the construction industry, have fewer associations than might be expected. The number of these associations is small because most construction associations are local and thus do not meet our nationally relevant criterion. It is also useful to note that Figure 5-1 covers all associations, whether existing or defunct. In some of the sectors, there has been a decline in numbers of associations as a result of rationalization of the associational system in the postwar period.

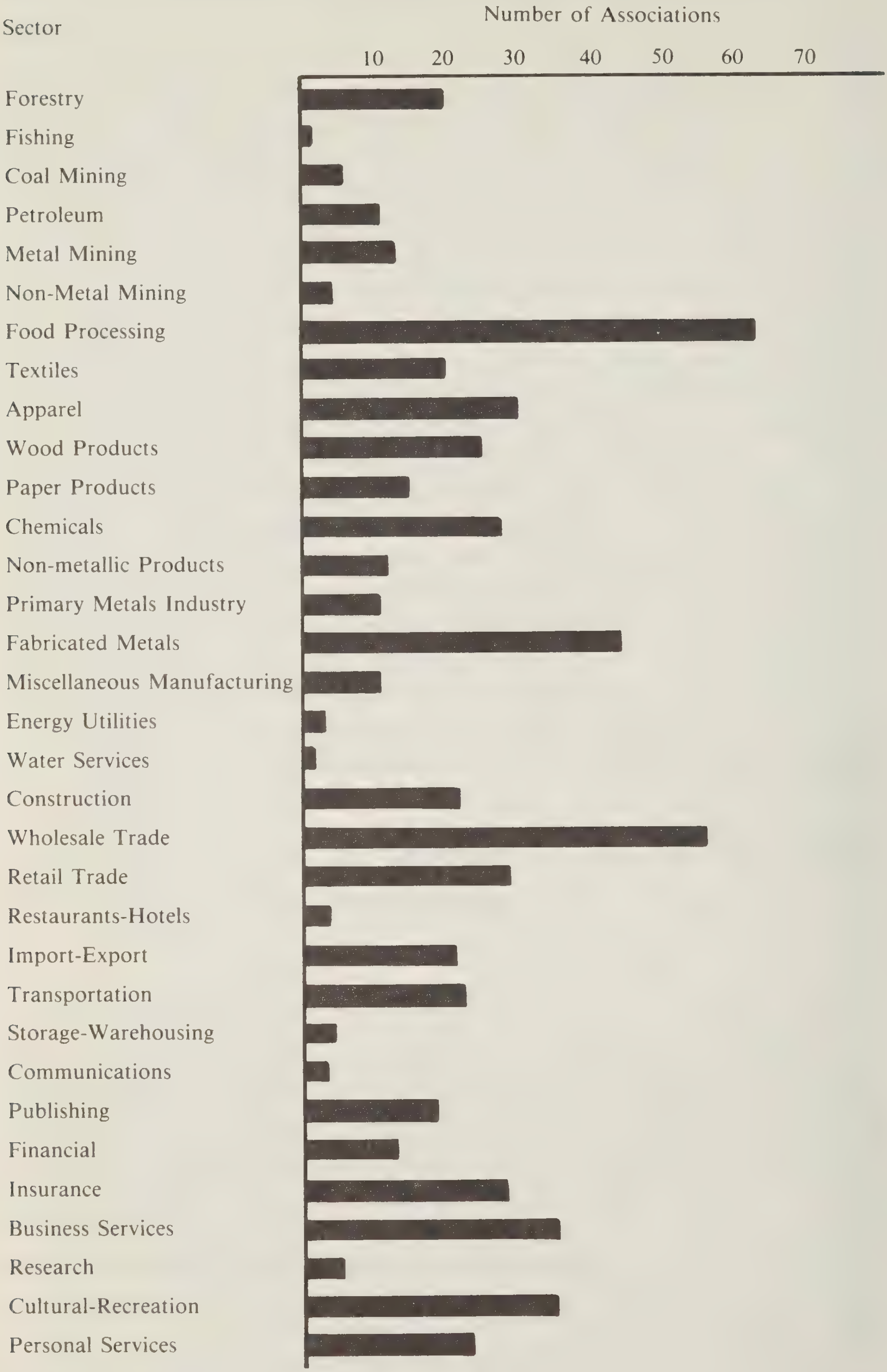
The system of business-interest associations in Canada embraces a large number of relatively small, highly specialized, product-specific groups. The degree of specialization can be shown in two ways. First, of the 660 associations covered by our analysis, 481 organized firms belong to only one sector. Those associations that organized more than one sector tended to include both manufacturers and distributors, whether wholesale or retail. Such associations, then, remained quite specialized by product, but organized a larger vertical slice of the industry. A second indicator of specialization can be devised using the International Standard Industrial Classification (ISIC) published by the United Nations (1970). This classification is organized into four levels as follows:

Level 1: Major Division	Manufacturing
Level 2: Division	Manufacture of food, beverages, tobacco
Level 3: Major Group	Food manufacturing
Level 4: Group	Manufacture of dairy products

Using information on the membership domains of the associations, an estimate can be made of the breadth of an association in terms of this hierarchy. Unfortunately, the ISIC categories for construction and wholesale and retail trade are not developed beyond the division level so that we must set aside associations which primarily organize these industries.[2] When this is done, we find that 39.3 percent of the remaining associations organize an industry corresponding to the group level of the hierarchy, and 28.6 percent organize an industry that is even more specialized than a group.

Although these associations are similar in terms of their economic scope, the resources available to them vary considerably. Table 5-1 gives a breakdown of associations based on their annual expenditures. The

FIGURE 5-1 Distribution of Business Associations by Sector



Source: Data collected personally by the author.

TABLE 5-1 Annual Expenditures of Business Associations, 1980

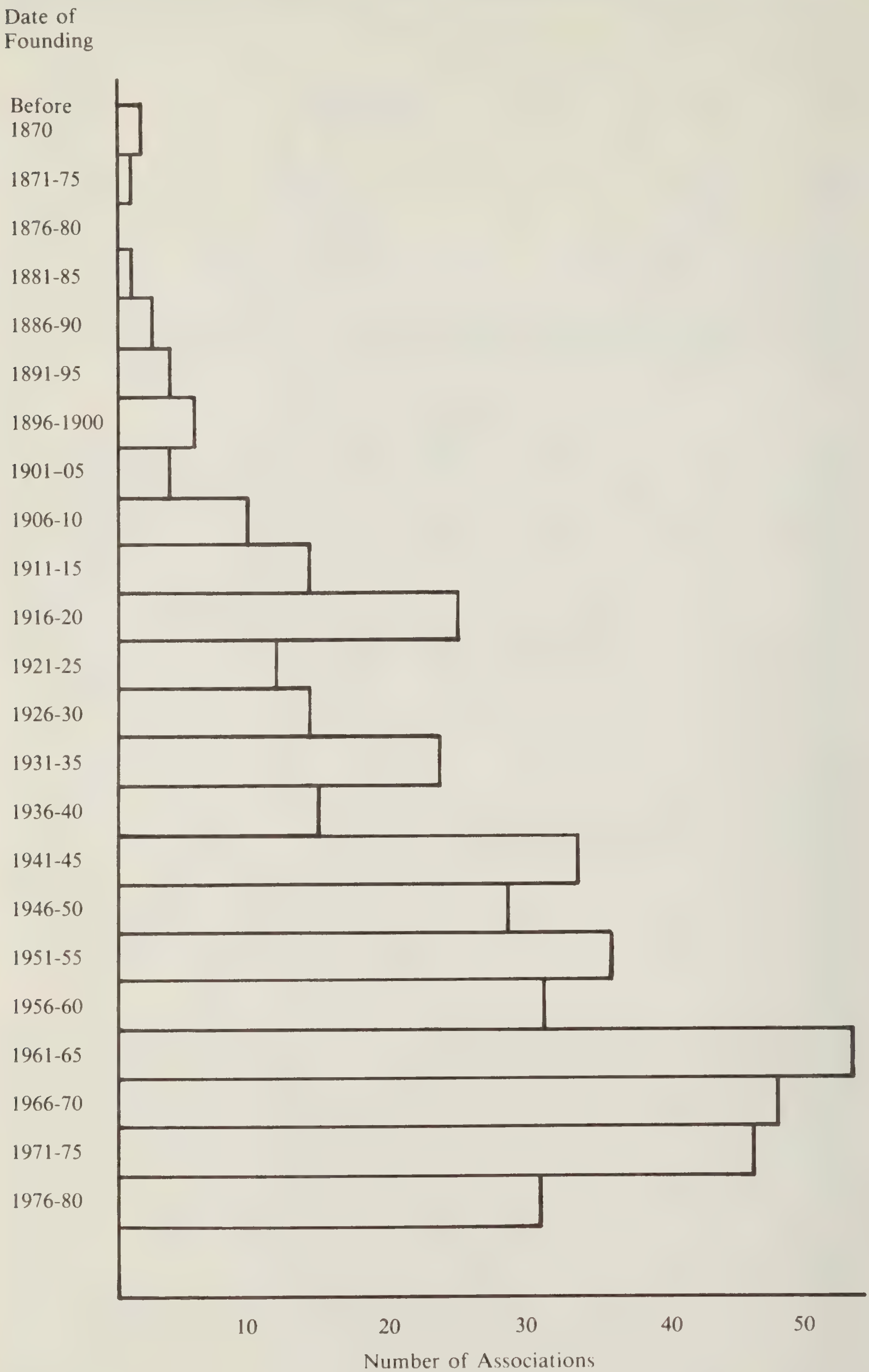
Amount in Dollars	Number	Percentage
0–5,000	6	1.7
5,000–10,000	33	9.4
10,000–25,000	41	11.6
25,000–50,000	28	8.0
50,000–100,000	46	13.1
100,000–250,000	89	25.3
250,000–500,000	43	12.2
500,000–1,000,000	33	9.4
1,000,000–2,000,000	17	4.8
2,000,000–5,000,000	9	2.6
Over 5,000,000	7	2.0

Source: Data compiled by the author.

majority spend between $50,000 and $500,000 annually, an amount that allows them to support a staff of three to 10 people. However, business associations also rely on the extensive participation of their members on committees (Coleman and Jacek, 1983). Hence the dollar amounts spent by associations significantly underrepresent the resources devoted to association affairs. Those associations with annual budgets exceeding half a million dollars normally supplement with professional staff the expertise contributed by committees of member firms. Depending on the industry, staff members may be engineers, lawyers, public relations experts or economists.[3] Many of the larger associations belong to an informal Ottawa-based group called the "Business Association Interchange," a forum where matters of common concern may be discussed, and where association executives can be briefed on changes in government positions and staff.[4] This informal collaboration and consultation among associations distinguishes Canada from many European countries, where such relationships are formalized into hierarchical structures.[5]

The majority of business-interest associations active today in Canada were founded after the start of World War II, as Figure 5-2 shows. The period of greatest growth came between 1961 and 1975, supporting the view that business associations have become increasingly necessary as a consequence of modern policy making. Since 1940, associations representing the manufacturing, construction and financial sectors have contributed significantly to this growth. The average founding date for both manufacturing and construction associations is 1946, while the birth of most associations in the financial sector centred around 1952. These figures compare to 1928 for agriculture, 1935 for forestry, 1938 for metal mining, 1935 for wholesale trade and 1929 for the retail trade sector. Figure 5-2 also indicates that wars and depressions appear to foster the founding of business associations. World Wars I and II gave an important

FIGURE 5-2 Period of Founding of Existing Business Associations



Source: Data collected personally by the author.

impetus to associative action, in which the state took the lead. During World War I, the Department of Trade and Commerce, for example, "adopted a policy of encouraging the organization of industry-wide associations to seek out orders for their member companies, particularly from Allied governments or their agents" (Hill, 1977, p. 172). Many of these associations found a new purpose after the end of the war, as their members were faced with severe problems of over-capacity; they then became vehicles for organizing the market and controlling prices (Traves, 1979, p. 73). The spectacular findings of the Combines Investigation Act Commissioner concerning associations in the rubber-manufacturing and flour-milling industries showed to what extent operations worked.[6]

In summary, business-interest associations in Canada today are rich in terms of member groups. Generally speaking, these groups represent narrow, specialized-product interests. They vary in size from part-time operations run out of the basement of an employee of a member firm to full-time organizations employing 100 people or more. The majority were founded in response to pressures on business that have developed in the policy environment since the early 1940s. The next point that requires investigation is the extent to which business associations are capable of playing a systematic role in the policy-making process.

The Coordinating Ability of Business Associational Systems in Canada

As social scientists renewed their study of business associations in the past decade, a new concept has come into being: that of the associational system. Scholars have found it useful to speak of the structure and role of *systems* of interest associations. When prominent writers in the field like Schmitter (1979, 1981) and Offe (1981) speak of resolving problems of governability in liberal democracies, they evaluate the capacity of systems of associations to control and direct political demands. Observers such as Panitch (1979, 1980, 1981), who are more sceptical, and who emphasize the role of corporatist structures in controlling and disciplining organized labour, also write about the system of trade unions and the authority that peak associations have over member unions.

To analyze the role played by business associations, we shall follow this approach and examine the associational system. The state, after all, tends to treat the aggregate of associations as a system, assigning the member groups different roles in the policy process. Business firms take the same approach. Most belong to several, and some to many, associations. They, too, view the aggregate of associations as a system with different units that play different roles. The overall impact of the association network is critical to a society's capacity to deal with economic and political crises.

At stake is what might be termed the "policy capacity" of an associational system. By this term we mean the properties that a system possesses which move associations into it and encourage their fruitful participation in policy formation and implementation. For the purposes of this analysis, we shall outline the ideal properties of associations that wish to play a policy role. These properties are simply heuristic constructs. We do not expect to find them fully developed in the real world, nor do we suggest that they must exist. They simply provide a reference point with which associations in Canada can be compared.

Associations capable of playing a policy-making role will have two properties.[7] First, they will be able to order and coordinate the complex activity in which they are involved as a result of demands by members and other organizations, particularly by the state. Secondly, they will be independent of both members and the state. By taking on a life of their own, they can rise above their members' short-term interests, assume responsibility for directing and, in some cases, sanctioning members, and provide the state with informal guarantees that their members will comply with the policy decisions to which they themselves agree. In this study, we can focus only on the first of these properties. While several variables will have a bearing on this coordination capacity, perhaps the most important is the structure of the associational system.

The associational system is important because it helps to reduce complexity. Take, for example, the British Columbia Fruit Growers Association. The interests of its members would require the association to become involved in general agricultural policy at the federal and provincial levels, marketing at the provincial level, grades, standards, and tariffs for exports at the federal level, and grades and standards for domestic sales at the provincial level. The task of representation would quickly become overwhelming. However, this workload would be much more more manageable if this group belonged to wider associations that monitor general policy and grades, standards, and exports at the federal level, as well as general policy at the provincial level.[8]

When we examine the structure of the associational system, it is important to note the economic level at which an association defines its domain. For our purposes, four levels will be distinguished:

- intersectoral: spans more than one major sector of the economy;
- divisional: agriculture, resources, manufacturing, construction, trade, transportation and communications, finance, services;
- sectoral: a major group in the International Standard Industrial Classification (ISIC) code or a group in the Canadian Standard Industrial Classification (SIC) code; for example, food processing in manufacturing, coal mining in resources, non-residential building in construction, retail trade in trade, banking in finance; and
- subsectoral: subdivisions of sectors; for example, dairy products,

TABLE 5-2 Summary of Properties of Associational Systems Relevant to Policy-Making Capacity

Policy Capable	Policy Weak
Systematic horizontal differentiation by product and by territory at each economic level	Horizontal differentiation is not systematic and shows gaps
Systematic vertical differentiation by different economic levels	Vertical differentiation is not systematic and shows gaps
Comprehensive vertical integration across product, territory and economic level with authority flowing down	No vertical integration; limited *ad hoc* horizontal alliances among associations
Concentrated in a few associations	Fragmented into many associations
No competition among associations	Associations compete for members

Source: See text.

bituminous coal, commercial building, grocery stores, chartered banks.

Summarized in Table 5-2[9] are the five properties of the associational system that facilitate the coordination and ordering of a complex field, and hence the assumption of a policy-making role by its member associations. They are encompassing in the sense in which Olson (1982) uses the term.

- Within a given level (intersectoral, divisional, sectoral, subsectoral), the system will be horizontally differentiated by product or service, and by territory. The important element here is that the associational system has a place for the voicing of each relevant interest. Systems with obvious gaps will be much less capable of playing an effective policy role.
- The associational system will be differentiated vertically by product or service group, and by territory. Separate associations or divisions within more encompassing associations will exist for organizing and representing interests of each economic level. A policy-weak system, however, will have gaps across economic levels. As a result, the state will need to deal with many associations and spend valuable time reconciling their differences, a prospect that will make it reluctant to involve them.
- The policy-capable system will be vertically integrated: that is, capable of bringing together interests from the lowest, most specialized level of the economy to the divisional and intersectoral levels. A peak association at each level will organize the associations under it. In addition, peak associations will be able to direct their members, since

authority flows down the hierarchy. In a policy-weak system, associations at each level will be independent of those at levels above and below. Coordination will be primitive, if it exists at all.

The final two properties follow from the first three:

- Monopolies of representation will exist at each level in the policy-capable system; associations will not compete with one another for members. In this way, interest representation is concentrated. In the policy-weak situation, interest representation is fragmented, and associations compete with one another for members.
- As a whole, the associational system is highly representative of business. Few firms lie outside the system, and each member association, in turn, has a high density of representation. In the policy-weak situation, associations are not strongly representative of their members. Important firms are not represented by the associations.

The analysis that follows focusses first on intersectoral associations, then turns to divisional and sectoral associations.[10] Because of its importance to Canada, the representation of territorial interests will be studied separately under the heading "Centralization." The question of the density of representation will be considered at the end. In general, we shall argue that the strengths of the Canadian system lie in its more specialized associations and its weaknesses at the higher intersectoral level. Intersectoral associations in particular appear to be relatively unprepared for assuming a role in the policy process.

Intersectoral Associations

Four national associations clearly fall into this category: the Business Council on National Issues (BCNI), the Canadian Chamber of Commerce, the Canadian Federation of Independent Business (CFIB), and the Canadian Organization of Small Business (COSB); so also do two provincial associations, the Conseil du patronat du Québec (CPQ) and the Employer's Council of British Columbia. It is common practice to include the Canadian Manufacturers Association (CMA) in this group, as well. However, the CMA is a divisional association representing the interests of manufacturers only. Firms from other divisions such as resources, construction, transportation and finance are not eligible for CMA membership, and we shall therefore reserve discussion of the CMA for our analysis of divisional associations. When the four national associations are analyzed as a system in the light of our criteria, serious questions arise about their policy capacity and suitability for extensive consultation. The two provincial associations do slightly better in this regard.

Monopolization The usual pattern in European countries features a single peak association representing the interests of business at the national level, or a single association representing the interests of large- and medium-sized business with another representing small business. This latter pattern is particularly prevalent in German-speaking countries, where *Gewerbe* or *Handwerk* firms enjoy special legal status and are organized into their own chambers or *Kammern*. In Canada this type of rationalization has not occurred. The BCNI and the Canadian Chamber of Commerce are competitors for the ear of government, both claiming to speak for the general interests of business. The creation of the BCNI in 1976 can be seen as a result of the weakness of the Canadian Chamber and perhaps even of the CMA. The two small-business organizations are also obvious competitors for both members and the ear of the state. The COSB is a breakaway group from the CFIB, criticizing its approach to political action and its structures. Competition is less prevalent at the provincial level. The BCNI and CFIB are not very active on the provincial plane, and provincial chambers of commerce have more room to assert their influence, except in Quebec and British Columbia. As we have noted, the Chamber is, in a sense, a competitor of the CPQ in Quebec, and the Employers' Council appears to have pre-eminence over the Chamber in British Columbia.

Vertical Integration There are virtually no organic links between these national associations and the hundreds of other business associations found in Canada. The pattern normally found in European countries shows a national peak association of which the members are other business associations organized at the divisional, sectoral and subsectoral levels. Depending on its internal organization, this association can take into account different interests among sectors of business, as well as bringing together and shaping those interests into more general positions. No such capability exists in the Canadian system. The BCNI is a direct-membership organization in that its members are specially selected large firms. These firms are supposedly chosen to represent all sectors of the economy, but there is no guarantee that this criterion is valid. Furthermore, a "representative firm" is not the same thing as a sector. There is no guarantee that in discussions with the policy committee of the BCNI, for example, Noranda is speaking for the whole of the metal-mining industry and not just Noranda Mines. The only organic ties that the BCNI enjoys with other associations are the affiliations of the CMA, the Canadian Chamber, and the Conseil du patronat. These affiliations appear to be relatively weak, since the BCNI has no authority over these associations by dint of their presence on its membership rolls.

Other business associations may choose to affiliate with the Canadian Chamber of Commerce, and many do so. This affiliation, however,

seems to be for informational purposes only. Affiliated associations receive the Chamber's publications and may attend meetings. They are also eligible for election to the board of directors, and they usually have one or two members on a board of 42. However, they have no voting rights in association meetings. The Chamber takes no account of sectoral interests in its internal structures nor in its system of committees. The lack of structural ties to other groups is even more pronounced for the CFIB and the COSB. Both these associations are direct-member organizations and not peak associations. While they may boast of representing a large cross-section of business in their membership, this breadth of representation is not guaranteed, nor do we find in their internal structure or committees any recognition of sectoral interests. In short, the capacity of the national intersectoral associations to aggregate interests vertically from the more specialized to the more general is very weak.

The picture differs for the two provincial associations. Both the Conseil du patronat and the Employers Council of British Columbia are mixed associations in that they both have direct firm members and association members. The CPQ has over 130 association members drawn from all major sectors of the Quebec economy. Following more classical peak-association lines, only association members can vote and serve on the board of directors. Capacity for vertical integration in the CPQ is greater than in any other Canadian intersectoral association. Contrast this with the Employers Council, in which corporate firm members have more power than association members. Nonetheless, the Council does have strong associational representation from the resource, construction and trade divisions. Unlike the Canadian Chamber, these associations have full voting rights and play a very active role on Council committees. In the other provinces, however, the pattern is closer to that of the national scene.

Concentration As is consistent with the lack of vertical integration in the national system, the multiple interests of business in Canada are represented by multiple associations. The process of aggregation must fall to government if it is to occur at all. If the interests of business are to be known, or if the federal government wishes to involve business in the formulation of a general policy (e.g., competition, taxation), at least 40 or 50 associations would have to be involved. The same must be said of all the provinces, except British Columbia and Quebec. In the former province, the major resource industries — forestry, mining, fishing — and the construction and trade sectors all have their associations as members of the Employers Council. The B.C. Division of the Canadian Manufacturers Association is one prominent non-member, however. Concentration is at least as strong in Quebec's CPQ. The Quebec Division of the CMA is not only a member, but is guaranteed two seats on the

board of directors of the CPQ. The Conseil appears to be somewhat weaker when it comes to representing the interests of small French Canadian business. Although the *Centre des dirigeants d'entreprise* is a member with guaranteed board representation, two larger associations drawing heavily from smaller French businesses, the *Chambre de commerce de la province de Québec* and the *Chambre de commerce du district de Montréal*, are not members.

Regional Representation At issue here is the capacity of an association both to listen and transmit regional interests, and to accommodate them in a consensual position. The BCNI has no regional structure at all. It is dominated by the country's largest firms, which in turn are heavily concentrated in central Canada. As an organization, it shows no special capability for taking account of regional differences and aggregating them, with the possible exception of those in Quebec.[11] The Canadian Chamber fares better in this regard. According to its constitution, its full voting members are the local chambers and boards of trade across the country. The provincial chambers of commerce are not themselves members of the Canadian Chamber. Their presidents, however, are represented on the board of directors of the national body. It does appear, then, that the Chamber is able to give voice to both local and provincial interests, and is in a position to aggregate those interests through board discussions.

The CFIB is more difficult to assess. This association organizes its political activity around responses to surveys on public issues submitted to members on a monthly basis. If there is a regional point of view on an issue, it will presumably appear in the replies to these surveys. On the other hand, although the association has regional branch offices, these offices do not exist to consolidate regional interests, but to service and recruit members in a given region. The organization is dominated by its head office in Toronto. For example, the central office decides which issues are important enough to be submitted to members in the monthly surveys. There does not appear to be any systematic capacity for integrating regional concerns into these rather important decisions. The COSB, on the other hand, presents the opposite picture, showing little capacity for creating a common national position. Its members are heavily concentrated in Alberta and Ontario. In many respects, the organizations in the two provinces are run separately from each other and have no strong structures wherewith to bring these two regions together on policy matters.

In short, the policy capacity of the intersectoral component of the business associational system is weak. If government were to involve these associations in policy formulation, it would have little reason to be confident that all important interests would be represented, that the parties would not waste time bickering with one another, and that

regional considerations would be systematically taken into account. If government were to proceed on the associations' advice, it would have little reason to expect that the policy would be welcomed by even the majority of the business community. If, on the other hand, it proceeds without business advice, the policy may well turn out to be a failure. Given this situation, is it any wonder that relations between the two partners are troubled?

Divisional and Sectoral Associations

In a report of this length, it is impossible to discuss all the systems of associations that operate on the divisional and sectoral levels.[12] Instead, this paper points out some of the more obvious strengths and weaknesses of associations at these levels. Generally speaking, the associational system in manufacturing appears to have the weakest policy capacity, while that in agriculture and construction the strongest. The remaining systems fall between these two poles.

The Canadian Manufacturers Association (CMA) has enjoyed an influential place in Canadian politics for over a century and is the parent of scores of more specialized associations. It concentrates interests well, having no real competitors on the major sectoral plane, and it is successful at achieving centralization. Compared to intersectoral associations, it has a very sophisticated structure for aggregating regional interests into a single national position. Its seven provincial divisions enjoy autonomy in matters of provincial jurisdiction, but also operate as channels for integrating regional views on national problems. They are not independent associations as are the local chambers of commerce. The chairman and vice-chairman of each provincial division of the CMA are automatically members of the major policy-making body of the association.

At the same time, its internal structure detracts from its ability to speak for all of manufacturing because of its lack of vertical integration. In essence, the CMA is a direct-member association and not a peak association. Other associations may affiliate with the CMA, but affiliation does not ensure participation in its affairs, only access to CMA publications. The CMA itself does run a number of manufacturing associations, but these tend to be highly specialized groups (e.g., the Grinding Wheels Manufacturers Association of Canada) that need only part-time services. Once these associations grow and develop, they are encouraged to set up their own operation. In short, there are no organic systematic linkages between the CMA and the large number of more specialized associations in the manufacturing sector. There are no structures that allow the CMA to give the various sectors of industry a representative voice in the association and thus enable it to deal internally with conflicts among manufacturing sectors. The functional divi-

sions in the CMA bureaucracy and the committee system are not organized along sectoral lines. The result is that aggregation of interests within manufacturing is a rather ad hoc process. In looking at an opinion submitted by the CMA, the government could not know whether it represented the views of manufacturing as a whole or favoured some sectors over others. The CMA itself might be hard pressed to answer such questions if the government were to ask them.

As a result, if the government were to require a more comprehensive sense of the opinion of manufacturing, it would have to go beyond the CMA to the more specialized associations. Even at the sectoral level, however, associational systems are not, for the most part, able to coordinate activities well. Sectors are organized in one of three ways:

- Competitive: In this case, there is no peak organization for the sector, and the associations openly compete with one another for members on the basis of philosophy. Perhaps the best example of this type of sector is the food-processing industry. That industry has no association that represents it as a whole. There is serious competition between the Grocery Products Manufacturers of Canada (GPMC) and many of the other larger associations in the industry (Coleman, 1984c). This competition is particularly intense between the GPMC and associations in primary food processing (subsectors whose raw material inputs are primarily farm produce), with policies on supply management at the heart of the disputes. The electronics industry is another sector where this pattern is prominent.
- Divided: In this case, a sector is populated by numerous associations with narrowly defined, mutually exclusive domains. No systematic arrangements exist for aggregating the various interests in the sector. This pattern is most common among manufacturing sectors and is found in the chemicals, machinery, clothing, and non-metallic mineral products sectors, among others.
- Organized: In a few sectors there is an association with a peak structure or a single comprehensive one with direct membership. An example of the former is the Canadian Wood Council, which represents forestry and wood manufacturing, and an example of the latter is the Pulp and Paper Association of Canada. Sectors of this type would appear to have the highest policy capacity.

While the overall picture in Canadian manufacturing reveals a weakly developed associational system, that found in agriculture is almost a direct contrast. The Canadian Federation of Agriculture (CFA) dominates the sector and is both a territorial peak association, since all provincial agricultural associations are members, and a sectoral one. The Dairy Farmers of Canada, the Canadian Horticultural Council and United Grain Growers Limited are members. The Canadian Pork Council and the Canadian Egg Producers Council have special arrangements

with the CFA that, in effect, constitute them as commodity committees within the organization. In addition, both the Dairy Farmers of Canada and the Canadian Horticultural Council are territorial and sectoral peak associations. The same is true of the provincial agricultural federations. The resulting three-tiered crosscutting structure gives the agricultural sector significant opportunities for aggregating and disaggregating territorial and commodity interests in ways not possible in manufacturing.

Nonetheless, the agricultural associational system possesses some properties that limit its overall policy capacity. The CFA suffers a vocal competitor in the National Farmers Union and does not represent all commodities equally well. The Canadian Cattlemen's Association is not a member. Ties to the grain industry are not as strong as they might be: the United Grain Growers is currently contemplating withdrawal from the CFA over the Crow Rate issue; the Canada Grains Council, which is the most prominent representative of the grains industry, is not a member;[13] nor is the Palliser Wheat Growers' Association, a growing force in the western wheat industry.

If the system in agriculture can be said to have the most developed policy capacity in Canada and that in manufacturing the least, the remaining divisions fall between the two. The closest to agriculture is probably the construction industry. The Canadian Construction Association is both a territorial and a sectoral peak association. However, the ties with its association members are weaker than those found within the CFA.[14] In addition, many of the special-trades contractors associations, as well as those in energy-related construction (e.g., the Canadian Association of Oil Well Drilling Contractors, the Pipeline Contractors Association of Canada) are not members. A separate associational subsystem exists for the house-building sector; it is dominated by the Housing and Urban Development Association of Canada. Finally, ties to Ontario- and Quebec-based associations are weaker than those found with the other provinces, despite the fact that the majority of construction work is carried out in these two provinces.

The financial sector is dominated by several strong direct-membership associations: the Canadian Bankers' Association, the Investment Dealers Association of Canada and the Trust Companies Association of Canada. No structures exist for bringing these and other associations in the sector together. Similarly, there are no peak associations in the resource sectors, except for the Canadian Wood Council, which organizes the forestry industry as part of its domain. In general, however, the tendency is toward direct-membership organizations differentiated by product (the Coal Association of Canada, the Mining Association of Canada (MAC), and so on) or by territory. Thus the Quebec Metal Mining Association, the B.C. and Yukon Chamber of Mines, and other provincial groups are completely independent of the MAC. This lack of integration may be more apparent than real. Because of the important role of the

provinces in the resource sectors, some integration takes place at the provincial level. For example, the Employers Council of British Columbia is said to play a considerable role in representing the mining and the forestry interests in that province.

Having reviewed briefly the basic structure of the associational system, we should say a final word about the scope of representation. Association density may refer to one of two phenomena: the proportion of all firms in a domain that are members of the association, or the proportion of production in the domain that is represented by an association's members. From the perspective of policy capacity, the second definition is more important. When considering involving associations in the formulation and implementation of policy, governments will be interested in whether they are dealing with an organization that represents most, if not all, of the economic activity in a given sector or subsector.

To a certain extent, high density levels will be related to the economic level of an association's domain. The absence of vertical links in intersectoral and divisional associations like the CMA means that their density levels are somewhat lower than might be needed to discharge a fuller policy role. In effect, these associations become competitors with more specialized associations for the resources of individual firms. Such competition can be quite stiff. More general associations cannot expect to develop the expertise or devote the time to the specialized technical issues that are the bread and butter of specialized groups. General associations cannot promise to be more directly useful than their more specialized counterparts. As a result, they must attract members on the basis of ideological appeal or a range of selective services. Both approaches are risky. Forced to choose between an association that makes an ideologically attractive proposal and one that promises immediate economic return, the pragmatic business person will usually opt for the latter. Similarly, associations that rely on services always run the risk that other business firms may provide the service at a better rate, or that the members they attract are not the most important ones.

Density is also lowered by the lack of regional structures in Canadian associations with more general domains. The structures of the BCNI, CFIB and COSB are weaker in this regard. Finally, competition among associations for members, as in the case of intersectoral associations, also lowers density.

In light of this situation, it is not surprising that associations with higher densities tend to be those with more specialized domains. Studies of associations in the Canadian food-processing industry show the specialized associations therein to have density levels ranging from 67 percent to 92 percent (Coleman, 1984c: p. 48a). (A density level of 67 percent means that members of a given association account for 67 percent of the production in a given sector.) In the chemicals and

construction sectors, the ranges are greater: 49 percent to 98 percent in the former, and 50 percent to 95 percent in the latter (Coleman, 1984b, p. 33a; 1984a, p. 45).

Higher-density levels are also associated with involvement in policy implementation. Certainly, within the food-processing industry, those associations that are part of corporatist policy networks had higher density ratios than those that played a common pressure-group role (Coleman, 1984c). It is virtually impossible to attribute cause and effect here. Instead, the process appears to be a mutually reinforcing one: involvement in policy formation and implementation enlarges membership, which in turn increases government reliance on the organization. The process would also work in reverse. This evidence is consistent with the picture that is slowly beginning to emerge: the strongest business-interest associations in Canada are those with subsectoral and, in some cases, sectoral domains.

Explaining Weak Policy Capacity

We are now in a position to summarize our evaluation of the ability of Canadian business-interest associations to play a policy role. We have examined their capacity to coordinate the complex interests of business, to separate general from specific concerns, to see and understand both regional and national interests, to be highly representative of their domains, and to govern their members while administering public policy. There is little doubt that the system of business associations is underdeveloped. It is characterized by congeries of isolated groups: intersectoral associations operate independently of divisional associations, divisional associations of sectoral associations (with the notable exception of agriculture), and sectoral associations of subsectoral associations. Regional interests are paid little attention and the representativeness of associations with more general domains is suspect.

A comprehensive explanation of the weakness of Canadian associations would be an extremely complex undertaking, and the basic elements of such an explanation can only be hinted at here. Two groups of factors are critical: industrial structure and state structure. In part, the divisions among various associations reflect divisions in the structure of the industry that they seek to represent. In the construction industry, for example, conflicts between general contractors and trade contractors, differences between the heavy engineering and building firms, and the intense competition among small firms are all critical. In the finance sector, the different structures of banks, trust companies, investment dealers and financial corporations, and the increasing competition among these sectors (the implosion of the "four pillars") makes integration difficult. In manufacturing, conflicts between oligopolistic sectors and competitive sectors, the different interests of foreign- and domes-

tically-owned firms, and different levels of adaptiveness to international trade are only a few of the factors that reduce the likelihood of encompassing association structures. Across economic divisions, more general factors come into play. The lack of integration between many resource industries and the manufacturing sector, the close ties between the chartered banks and foreign, rather than domestic, industry, the weak linkages between the agri-food sector and capital goods manufacturing are all factors that make strong intersectoral associations less likely to emerge.

The shape of public policies often accentuates industry divisions of this type. The fact, for example, that in food processing, meat, dairy, fruits and vegetables, and beverages are all regulated separately by different agencies makes unity difficult to achieve in that sector. The same phenomenon differentiates pharmaceuticals and agricultural chemicals from other chemical industries. In some provinces, labour relations for industrial-commercial-institutional building are regulated differently from those for residential building. Virtually every sector has such policy-based divisions.

The overall nature of the Canadian state may also have an effect. Canada lacks a strong state tradition, one that gives the state ideological unity and an elevated sense of the public interest. Dyson (1980) and Birnbaum (1982) see the presence of such a tradition as critical, in that a developed, strong, relatively unified state helps to create a more unified and better integrated organization of civil society. Canada can be thought of as having a weak state in this sense, and this weakness contributes to the fragmentation of interest organizations in Canadian society.

Some analysts have also suggested (Kwavnick 1975; Dawson 1975; Schultz 1980) that Canada's federal system fractures and injects conflict into associations, making it more difficult for them to work as individual units, let alone to cooperate with one another. The counter-hypothesis is Grodzin's argument (Schultz 1980) that federal systems benefit groups by increasing the number of points at which pressure may be applied. Research in this area is still at an early stage. Preliminary comparative work (Coleman and Grant 1985; Coleman, forthcoming) shows that there is no simple one-to-one relationship with unitary regimes that have unitary associations and federal regimes that possess federal associations. Any type of political structure displays varying degrees of territorial differentiation within associations. The evidence does indicate that associations in decentralized federations like Canada and Switzerland are more divided regionally than associations in integrated federations like West Germany or more unitary states like Great Britain. This fragmentation, however, is counterbalanced to a degree by the presence of regional peak associations, phenomena not found in Germany or Britain (Coleman, forthcoming). At this early stage in the

research, it would seem that federalism does not present as serious an obstacle to coordinated associative action as has been generally assumed in Canada.

Implications for Consultation

The Canadian system of business associations brings a mix of strengths and weaknesses to the policy-making process. On the positive side, Canadian associations organized at the sectoral and subsectoral levels do assume important roles in the policy system. These roles extend from regular formalized consultation to involvement in the administration and regulation of certain policies. On the negative side, the weak vertical integration of the system across both product and territory is virtually certain to exacerbate the natural conflict between business and government, and to compromise efforts on both sides to improve consultation. Furthermore, the weaknesses of the system will virtually rule out certain important policy options, particularly those requiring sustained tripartite consultation at the peak intersectoral level.

System Strengths

The Canadian system of business associations has undeniable strengths. These associations are capable of engaging in traditional pressure-group activity competing with one another through the conventional process of lobbying and advocacy, a process in which associations stand on the outside looking in. Needless to say, the major part of business-association activity falls into this category. But on occasion, associations go further and assume a more direct role in policy making.

The assumption of a direct role in the formulation and implementation of policy in Canada occurs primarily on an ad hoc basis on relatively narrowly defined issues. In certain policy areas, a particular combination of government and business needs produces this deeper form of involvement. The conditions under which it occurs differ, depending on the policy network that develops in a given area. By the term "policy network," we refer to the pattern of relations between the state and organized interests;[15] different kinds of policy networks may be distinguished by the linkages among associations involved, the nature of the relevant state agencies, and the degree of involvement of groups in the policy process. Three separate kinds of policy networks in which groups are given formal responsibilities for the formulation or implementation of policy deserve attention: sponsored or clientele pluralism, corporatism and private interest government.

In cases of sponsored or clientele pluralism (Lowi, 1979, p. 61; Lapalombara, 1964), the associational system displays all the properties associated with weak policy capacity: little formal vertical integration,

highly specialized domains, and inter-associational competition. However, in some policy areas, usually involving regulation, a state agency may not have sufficient resources to carry out its mandate, lacking the information and resources to formulate policy and the power to ensure compliance. Specialized business groups, fearing misguided intervention and possessing the information and expertise which the agency lacks, seek a greater role in shaping the policy and are welcomed by the agency. The association becomes the intermediary, transferring information from the industry to the state and receiving some responsibility for administering the policy in exchange for promoting compliance with it.

Atkinson and Coleman (forthcoming) have described an example of this type of policy network in their study of the Canadian pharmaceutical industry. The central players in the network are the Pharmaceutical Manufacturers Association of Canada (PMAC), representing prescription drug manufacturers, and the Health Protection Branch (HPB) of the Department of Health and Welfare. Two general consultative mechanisms form the base of the network. First, joint committees of agency officials and association representatives formulate policy with senior level committees discussing its general shape and junior committees deliberating over technical details. Secondly, the HPB makes abundant use of "information letters." Changes in policy envisaged by officials are proposed in an industry-wide letter, and reactions are solicited. This consultation process is coordinated by the industry association that serves as the industry's forum for the discussion of the government's proposals. The PMAC often assumes responsibility for implementation of regulatory policy, as in the cases of safety and good manufacturing practices, and the advertising of drugs.

A corporatist policy network, on the other hand, involves industry associations in the policy process under different conditions. In this case, two or more producer groups are in conflict. These groups may be from different social classes (business and labour) or from within the same class (manufacturing and retailers). Whatever their origins, the struggle between or among the groups promises to have wider social and political repercussions. In order to contain the conflict, the state invites the groups involved to participate in policy formation or simply delegates to them the responsibility for devising a policy that will end the problem. This invitation often promotes further integration among associations, something that does not occur in sponsored pluralism. Once devised, the state then hands over some or all of the administration of the policy to the group or groups concerned. A corporatist policy network, then, is an instrument for the regulation of conflict; unlike sponsored pluralism, it includes a state agency that is relatively strong and autonomous from the groups involved, and not dependent on them for information and compliance.

Examples of this type of policy network occur almost exclusively at

specialized levels of the Canadian economy. The growth of farmer-controlled marketing boards in several agricultural sectors is a common locus. To these boards are delegated various powers over economic regulation in their commodity areas, and the boards are then invited to share the exercise of those powers with associations representing food processors and, on rare occasions, consumers.[16]

The delegation of authority to employer associations and labour unions to carry out collective bargaining provides another situation where corporatist policy networks are common. This process is perhaps furthest advanced in the construction industry, where employer associations are becoming the centre of collective bargaining for business. It occurs, as well, albeit to a lesser extent, in the forestry industry and the health services sector in British Columbia, and in the clothing, shipping and trucking industries.

A third type of network, which we shall call "private interest government," has been the subject of less analysis than the previous two. As in sponsored pluralism, the relationship is one-on-one between a business-interest association representing a single interest and the state. However, there are several important differences. The delegation of authority does not appear to derive from the weakness of the state in relation to its information base or its ability to secure compliance. Instead, it arises from the interest of a stronger state in relieving itself of some functions (Grant, 1984b). The state may define a policy objective that cannot be achieved using traditional bureaucratic structures, one that requires flexible interaction and cooperation with business. In either situation, the business association may assume responsibility for the function in question, or for the coordination of the sector's participation. Unlike the case of sponsored pluralism, there is no agency to be captured. And unlike the case of corporatism, there is no conflict among producer groups within the network.

Theoretical study of these kinds of arrangements is at its earliest stage. Ronge (1980) has suggested that the growth of these arrangements may represent a new stage in the relationship between business and the state: rather than relying on direct state intervention to secure growth, business is beginning to use delegated state authority by working through associations to achieve its ends. Grant (1984b) adds that these new arrangements are not really corporatist, as they are not interventionist — the Thatcher government in Britain is making increasing use of them — nor are they attempts to resolve and contain conflicts between social groups such as business and labour. Streeck and Schmitter (1984) have tentatively suggested that they may represent the vanguard of a new associative order that is beyond, or in the midst of, the state, the market and the community.

Both Streeck (1983a) and Grant (1984b) have noted this use of associations in the development and implementation of training policy for

categories of skilled workers. Similarly, in Canada, associations representing pipeline contractors, oil-well drillers, automobile parts manufacturers, and aircraft manufacturers have assumed responsibility for developing and administering vocational training. Certificates received by workers in the association's courses are recognized by provincial authorities and federal employment centres. Private interest government is also found in the development of product standards in manufacturing and building, advertising standards, and codes for professions. Thus the Canadian Standards Association and the Canadian Gas Association prepare standards for such items as plumbing fixtures, electrical wiring, and gas heating; these are recognized by the Standards Council of Canada and incorporated into relevant laws and regulations affecting the building industry.

System Weaknesses

The weaknesses of Canadian business-interest associations emerge most clearly when the focus shifts to broad policy issues. Weaknesses add to the inevitable tensions between government and business, and rule out certain policy options that political leaders might wish to consider.

Although neither business nor government may be interested in the extensive concertation that takes place in many European countries, both parties do appear to be interested in improving and even expanding consultation. If business is poorly organized, in the sense that its associations cannot take systematic account of concerns in its own community and are not representative of that community, then government will find wanting the advice it received and will treat that advice less seriously. A vicious circle sets in. In not taking the advice of business associations seriously, the government will make it even more difficult for the groups to become well organized, as the hostile attitude of government will make organization seem futile. When the next round of consultation takes place, business may be no better organized, the frustration on both sides may be greater, and associations may be weakened even further. In short, we suggest that the weak development of business associations in Canada heightens conflict between business and government beyond a creative point. The natural tension in the business-government relationship is significantly exacerbated. As the gulf widens unnecessarily between the two parties, ignorance of the other party increases on both sides.

This is all the more regrettable because a strong association structure can have a positive effect on policy making. The most highly developed associational system at the divisional level in Canada is that in agriculture. It is no accident that agricultural policy features the most concerted effort to develop and carry out a long-range policy strategy.

The Agri-Food Strategy, as it is called, was developed over a period of three years between 1978 and 1980, in a series of discussions involving both the Department of Agriculture and the industry. Once in place, it has been used to orient policy within the Department. Progress is continually monitored in joint industry-government forums. The overall strategy is reviewed annually by a joint planning committee of senior officials of the department and the Canadian Federation of Agriculture. More specialized aspects of the policy are dealt with in more frequent meetings between lower-level officials and their appropriate counterparts from industry. It is certainly too early to assess the overall value of this exercise, but the fact that it has been going on to the satisfaction of both sides for four years would suggest that some progress is being made.

This development in agricultural policy may arise from reasons other than the strong association system we find in this area. But the strong organization of the agricultural community does make such an approach possible. In other economic divisions, especially manufacturing, the organization of business is such that this kind of approach to policy is not possible, as the experience of the vast, rambling, ad hoc and ultimately inconclusive Tier I–Tier II process suggests. The option open in agriculture is closed in manufacturing. Clearly, the level of business organization has important consequences for the range of policy options available to decision makers.

The contrast between agricultural and manufacturing divisions is eloquent when we examine the intersectoral level. Our study of associations would suggest that concertation with business on an economy-wide scale, including tripartism on the European model, cannot succeed in Canada. Any attempt to proceed in this way will result in frustration and disillusionment on both sides. Simply put, the structures of business representation are insufficiently developed. The existing system is not vertically integrated. The capacity of general associations to reflect and integrate the interests of all business is severely compromised, as is their usefulness to governments. Cooper (1982, p. 65) writes:

> The conflicts generated by differently placed groups — be they within the employer or employee communities — are inevitable. Not only does their internalisation and management by the peak organisations make the task of building national consensus that much easier for governments, but a unified national organisation generally enhances the power of whichever side of industry is organised in that way.

Weak vertical integration also exists in major sectors of the economy. There is no peak organization in the minerals or finance sectors, and the CMA does not systematically integrate all manufacturing interests. Only the agricultural and construction sectors have such a capacity. The associational system as a whole cannot be relied upon to take systematic

account of competing interests and to develop detailed positions sufficiently informed and considered to receive general support from business.

Moreover the capacity of the associational system to weigh regional interests is suspect. Again, the general intersectoral associations in particular are deficient in this respect. Such divisional associations as the Canadian Federation of Agriculture and the Canadian Manufacturers Association have well-developed regional subunits, but their counterparts in other sectors lack this feature. The capacity of the more general associations to bring a regionally sensitive perspective to the policy table is doubtful.

If there are no peak associations structured to speak for all of business in all parts of the country and in all economic sectors, of the kind that are willing to assume some responsibility for developing consensus among firms, certain policies will probably never be realized. Here we are thinking of a voluntarily agreed on incomes policy, or, at lower levels, a positive-adjustment industrial policy like that found in Japan, either designed for the whole manufacturing division or for selected industrial sectors.[17]

Some would consider this picture unnecessarily bleak and would suggest that informal cooperation among associations could fill the gap. The evidence suggests, however, that informal cooperation is not extensive in Canada and not sufficiently developed to sustain the intensive discussions required for an incomes policy or positive adjustment.[18] In addition, in the absence of the discipline of a more developed association system, other properties of business associations, not particularly conducive to participation in policy making, will flourish. Associations, as Olson (1968) has demonstrated, must operate as firms do, offering selective goods to attract members. However, political entrepreneurs (Moe, 1980) organize associations to occupy particular economic niches and then seek to expand their power by encroaching on the domains of other groups. Competition becomes the order of the day and the possibility of concertation among associations diminishes significantly. Without concertation among associations, effective consultation with government is most unlikely.

To accept or reject this state of affairs is primarily a political decision. Those constraints on the development of associative action which derive from institutional properties of the state and industrial structure are serious. The business-association system cannot be restructured overnight. Political leaders might well decide that the present strengths of the system are sufficient, and that the types of policies that would be seriously affected by the system's weaknesses are simply not on the agenda. On the other hand, there are some policy approaches, such as sustained, intensive consultation with business on economic development, incomes policy and positive-adjustment industrial policies, that

political leaders might wish to consider. If they do, they must realize that the institutional properties of the associational system cannot support such policies. At the same time, they need not throw up their hands in despair. A variety of indirect incentives might be provided to associations to encourage greater integration and concertation. If state officials and politicians were more aware of the institutional properties of associations, they might apply pressure on business to change its system. There will be no easy solutions. The business community's basic institutional forms of representation are at the crux of the matter.

Implications for Parliamentary Democracy

Many analysts who have reflected on the poor relations between government and business in Canada have hesitated to recommend more formal consultation as a solution, as they consider that that approach would be incompatible with the principles of our parliamentary democracy. While serious arguments might be mounted against such consultation on other grounds, the parliamentary democracy objection, in our view, is not a persuasive one. Usually, this objection is stated in one of two ways.

First, it is often argued that to give organized interests privileged access to the policy-making process violates the democratic principle that all citizens should have the opportunity to participate in policy determination and equal access to government. Schmitter (1983a, 1983b) has discussed this problem at some length. He suggests subdividing the concept of democracy into two dimensions: the mode of governing, which may be populist ("of the people") or élitist ("for the people"), and the unit of reference for evaluating performance, which may be the individual citizen or the public authorities. An increased emphasis on the involvement of interest associations in policy making does represent a shift away from a populist to an élitist mode. The extensive participation of individual citizens in government is less predominant.

Secondly, there is a movement away from the citizen and toward public authorities as the unit of reference for evaluating performance. Less emphasis is placed on hearing the demands of all citizens and giving them equal consideration.

According to Schmitter, there are certain benefits to be had from these shifts. The processes of regularized discussion of policy and joint decision making that result from association involvement decrease "the potentiality for arbitrary and self-serving decision-making by executive authorities" (1983a, p. 27). Authorities become more accountable, though their accountability is to more specialized and informed publics. Similarly, "by rationalizing and professionalizing the processes whereby interests are articulated and aggregated, public authorities can become more responsive to longer-term needs and latent 'public interests' than they would be if they had to deal with all matter of unprocessed demands and spontaneous impulses coming from the citizenry" (1983a, p. 27).

The choice that political leaders must make when deciding on the role of associations is a difficult one. If they move to involve interest associations more formally in the processes of policy formulation and implementation, they constrain the participation and equal opportunity of individual citizens, but probably enhance the degree to which public authority is accountable and responsive to selected organized groups of citizens, and to which policy becomes effective and realistic. If they decide against formally involving associations, the opportunities for participation and accessibility available to individual citizens are not diminished, but the capacity for holding authorities accountable for their decisions and ensuring responsive decision making is less developed. Clearly, if a government were to involve associations more systematically in policy making, there would be a danger that its desire for effective policy might cancel out access by individual citizens. European countries which have moved in this direction have therefore had to create new, limited, "functional" forums where citizens are given access to compensate for losses elsewhere.

But even if public authorities become more responsive and accountable by involving private-interest associations in policy making, would decisions reached be perceived as legitimate in the context of democratic policy? The legitimacy of decisions reached by the joint policy making of private and public authorities has been most extensively analyzed by Anderson (1979). He suggests that to involve associations in policy formulation and administration need not be incompatible with democracy. Particular attention must be paid, however, both to the structures and to the process whereby the groups are involved. Compatibility with democratic practice will be enhanced if this process has three properties (1979, p. 278):

- The process is capable of producing policies that are in the public interest, and not oriented toward narrow, private concerns.
- The process is impartial in terms of the interests currently or potentially present in the community.
- The process is supplemental to the process of direct popular representation and not a substitute for it.

In order to design systems of representation that meet these criteria, public authorities would first have to ensure that the objectives of public purpose and the standards for evaluating the acceptability of decisions are stated in such a way that the procedure for making a decision and the participants in the process may be derived from it (Anderson, 1979, p. 294). Secondly, they must set an explicit standard for decision making against which the decision within the group process can be measured.

Let us illustrate these prescriptions with an example. Suppose that the authorities define their policy objective as the devising of a pricing system for milk products that will ensure that Canada continues to be self-sufficient, has a viable farming community, and yet does not exces-

sively penalize the consuming population, particularly those elements that are most disadvantaged. With this objective in mind, the representatives of farmers who produce the milk, the processors and workers who manufacture it for human consumption, the consumers and public authority should presumably be participants in the process. If any of these groups are not represented, the decision-making process will appear to be less than legitimate. The procedure to be used in this forum is also clear: no policy will be acceptable unless it is agreed upon by the representatives of farmers, consumers and the authorities.

Once they have defined their policy objective, authorities wishing to involve groups in decision making must also devise a standard against which the eventual decision can be measured. In our illustration, the government might say that farmers who meet a certain level of efficiency should not go bankrupt under the policy, and that consumers who are in the bottom two deciles in the income distribution of society should not pay more than *x* percent of their income for milk. The system devised by the parties in the discussions will need to meet these standards if it is to be accepted. If these steps are followed, the government does not abdicate its authority, as so often occurs when groups are delegated public power to devise regulation schemes (see Lowi, 1979). Instead, it defines the objective, sets the terms for policy deliberations, provides a standard for assessing the results of those deliberations, and gives those closest to the problem a say in solving the problem and even in administering the solution.

If public authorities proceed in this fashion, according to Anderson, the decision-making process will have the three necessary properties defined above. The strong assertion of the objectives of the government and the comprehensive representation of interests in the process ensure that the public interest is served, and not a narrow group concern. The process is impartial toward the interests involved in that it is not necessarily set against or in favour of any one of them. The process supplements, rather than displaces, direct popular representation, for public authorities define the policy objectives and the standards by which the decisions are to be reached.

There is one further consideration. Anderson (1979) writes that in becoming an "official" representative of an economic interest in policy making, an association becomes part of the political system and in some respects an involuntary organization, since its members are pressured by the state to belong. As part of a democratic political system, "the internal government of the interest organization must itself be democratic" (p. 290).

It is not easy to determine the implications of this statement when the interest being represented is a functional one. However, some properties of Canadian business-interest associations would appear to be problem-

atic when it comes to democracy. Many of them, particularly those with more general domains, are not representative of all their area. Most of them have decision-making systems that are democratic in a formal sense only. With very few exceptions, Canadian associations give all member firms, whatever their size and importance to the sector, a single vote. Matters of policy are decided by the boards of directors, and the annual membership meeting allows for a formal electoral ratification of the boards' decisions. Competition for posts on the board is rare; nominees are usually selected in behind-the-scenes discussions. In many instances, the larger firms in the sector or subsector are informally guaranteed a seat on the board and thereby come to dominate the association's affairs. Rules for representing regions and different classes of firms are often not written down, if they exist at all. The board or an executive committee of the board generally runs the organization, choosing the officers, committee chairpersons and, usually, the committee members. It becomes very difficult to discern whom an association position represents and under what procedures the position was reached. Transparency in administration is not a long suit of Canadian business associations. If these associations are to be systematically involved in policy making, and if democratic principles are to be maintained, such practices must be stopped.

In short, there is nothing about group involvement in policy making that is inherently incompatible with democratic government. However, governments who might be tempted to follow such a route will need to pay some attention to the internal structures of the groups involved and must define clear policy objectives. They must design structures that will give a voice to those not represented in the process and define the standards that any eventual decision will meet. These tasks are difficult, but not impossible. The formal involvement of associations in policy making and the functioning of parliamentary democracy are not necessarily incompatible.

To conclude, the organization of business in Canada is one of the important factors impeding effective consultation between business and government, while contributing to hostility between the two parties. But the obstacles to better business associations are not insuperable. The route to a more effective associational system must be built upon the existing strengths of the system and its many relatively strong, professional and effective groups at the sectoral and subsectoral levels. Incentives can be given to these organizations to help them become even more relevant players in the policy process. These organizations can be encouraged to form integrated peak associations that span economic sectors. Ultimately, only when such associations are working can government expect to engage in consultation on major crosscutting issues in a democratic fashion.

Appendix: The Study

The information used for this assessment is drawn primarily from a three-stage research project on economic-interest associations conducted by the author and Henry Jacek, and supported by research grants from the Social Sciences and Humanities Research Council of Canada.[19] In the first stage of the project, an attempt was made to draw up a list of all the nationally relevant economic-interest associations that had operated in Canada since Confederation. An association was defined as nationally relevant if it met at least one of the following three criteria:

- It claimed to represent an economic interest on a national basis.
- It claimed to represent an economic interest in a province or group of provinces that accounted for 35 percent of the national production or employment in the sector concerned.
- It claimed to represent an economic interest in Quebec or French Canada that paralleled a national association.

With reference to the second criterion, the Ontario Food Processors Association would be included, as Ontario accounts for about 60 percent of fruit and vegetable processing in Canada. On the other hand, the companion organization in Quebec would be excluded, because that province is responsible for only 15 percent of fruit and vegetable processing in Canada. The Quebec association, the *Association des manufacturiers de produits alimentaires du Québec*, would also be excluded under the third criterion. It is a regional branch organization of the national Canadian Food Processors Association. However, the *Association canadienne des éducateurs de la langue française* would be included under this third criterion, as it is a French Canada-based organization that parallels a national association, the Canadian Education Association.

Basic information was gathered on this list of nationally relevant associations. These associations were classified according to economic sector and member occupation. The date of founding and the site of national headquarters were recorded. Information was gathered on the number of members, publications, the number of people employed, objectives and executive structures. In collecting much of this information, we were more successful with existing associations than with defunct ones.

The objective of the second stage was to supplement the aggregate data base of the first stage with more qualitative information on associational emergence, structures and activities. To this end, a series of sectors was chosen where such studies could be pursued: dairy farming, wheat growing, forestry, metal mining, food processing, textiles, chemicals, machine tools, construction, banking, teaching, medicine and railway transport. Existing associations in these sectors were contacted

by mail and asked for detailed information on their structures and activities. If there was no response, up to two follow-up letters were sent. In addition, information on the history of the development of these sectors and on their existing industrial structure was collected.

In the third stage, a closer study of the actual operations of business-interest associations was carried out. This research also investigated Canada as part of a nine-country international comparative study project on the associative action of business.[20] Under the coordination of Philippe Schmitter and Wolfgang Streeck and with the support of the Volkswagen Foundation, the nine teams met three times at the International Institute of Management in West Berlin to draw up a research design and a common set of variables.[21] This design was then used as the basis for interviewing associations in five of the sectors listed above: chemicals, construction, food processing, machine tools and textiles. Several intersectoral associations were also interviewed. The Canadian interviews were conducted in the fall of 1981 and the winter of 1982. In the end, 54 associations were interviewed, of which 51 were retained for the international study.

Selected data from the three stages of this research have been used in this report. Since the first and second stages yielded research on all economic-interest associations and not just those representing business, the latter groups were separated. For the purposes of this report, an interest association will be classified as representing business if the primary membership unit of the association is an enterprise or branch thereof.[22] Public enterprises and cooperatives are considered to be enterprises for these purposes because they are integrated into capitalist relations of exchange. Associations will also be included if their members are individual persons who would normally be considered to occupy senior levels in the enterprise, and whose basis of organization is their position in the firm, and not a shared profession.[23] Finally, associations whose members consist of other associations that fall into one of the above two categories will be considered. These will normally be referred to as "peak associations." Debate over the class position of farmers remains sufficiently undecided — Are they business persons or independent commodity producers? — so that associations representing farmers will be treated separately from business associations.

Notes

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1. A discussion of both of these examples may be found in Coleman (1984b).
2. All of construction is classified at the major division level, while wholesale and retail trade are classified at the division level only.
3. Of the 322 associations which provided information on this point, 51 reported having a specialist in public relations, 59 a research officer, 20 a specialist in legislative matters, and only 7 had a lawyer on staff.
4. Information received in an interview with J.R. Bertrand, Urban Development Institute, Ottawa, February 12, 1982.
5. Informal relationships among interest associations are more common in Canada. The Council of Ontario Contractors Associations, the Ad Hoc Committee of Chemical Associations, the Ad Hoc Committee of Automobile Associations, and the Drug Liaison Group are examples. None has a formal constitution or permanent staff. They meet informally to discuss matters of common concern.
6. See Canada, Commissioner, Combines Investigation Act, Report. *Rubber Products Investigation into Alleged Combines in the Manufacture, Distribution and Sale of Mechanical Rubber Goods, Tires and Tubes, Accessories and Repair Materials, Rubber Footwear, Heels and Soles, and Vulcanized Rubber Clothing* (Ottawa, 1952) and Commissioner, Combines Investigation Act, *Flour Milling Industry: Investigation into an Alleged Combine in the Manufacture, Distribution and Sale of Flour and other Grain Mill Products* (Ottawa, 1949).
7. The definition of these properties is borrowed from Schmitter and Streeck (1981).
8. This occurs through the BCFGA's membership in the Canadian Federation of Agriculture, Canadian Horticultural Council, and B.C. Federation of Agriculture.
9. These properties are abstracted from Schmitter and Streeck (1981) and Marin (1983).
10. We lack space for a systematic review of horizontal and vertical differentiation.
11. Note that the Conseil du patronat is an affiliate of the BCNI. No other groups are so linked.
12. A manuscript covering this area, entitled *Business, Organized Interests and the State in Canada*, is in preparation for publication by the University of Toronto Press.
13. The Canada Grains Council is a vertical organization that represents not only grain growers, but processors, traders, shippers and other groups. This vertical domain prevents it from becoming a member of the CFA, a strictly farmers' organization. The CFA is actually listed as a member of the Council.
14. See Coleman 1984a for details.
15. The concept of a policy network is borrowed from Katzenstein (1978). It is elaborated in some detail for sectoral- and subsectoral-level analysis in Atkinson and Coleman (forthcoming).
16. Examples of such networks are described at some length in Coleman (1984c).
17. See Atkinson and Coleman (forthcoming).
18. See Coleman, 1984a, 1984b, 1984c for details on informal cooperation.
19. SSHRCC Research Grants 410-78-0716, 410-80-0280.
20. The remaining countries are: Austria, Denmark, Italy, Holland, Sweden, Switzerland, the United Kingdom and West Germany. Teams from Spain and the United States joined the project in 1984.

21. This was published in 1981. See Schmitter and Streeck (1981).
22. In the term "enterprise," we include firms engaged in the provision of services. Among examples are engineering firms, accounting firms, companies running television stations.
23. Accordingly, we would include the Canadian Natural Gas Processors Association, which is an association composed of senior plant managers in gas-processing firms which meets to discuss common problems. On the other hand, the Canadian Medical Association would be excluded because its basis of organization is a profession, and not a position in the system of production.

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Consensus Building in Canada: *Case Studies and Prospects*

PIERRE FOURNIER

Introduction

The economic difficulties that all Canadians have experienced in varying degrees over the last ten years have been the major stimulus for a number of initiatives or experiments in concerted action that involve the three main protagonists in economic development: business, unions and government.

Although the Canadian experiments have some features in common with European, American and Japanese initiatives, they are unique: they have their own dynamics, and they reflect a distinctively Canadian context. Our main objective in this paper will be to examine the various structures developed to promote consensus and the efforts made in this direction, with a view to evaluating the present situation and attempting to foresee where the mechanisms set in place will lead. We shall concentrate on the most recent federal initiatives, but we shall also analyze the provincial experiments that seem to us to be the most significant. Since our primary aim is to assess the effectiveness of national and regional mechanisms for concerted action, we shall not deal with such private sector experiments as joint productivity, health and safety committees, profit-sharing programs, employee participation in share capital, or employee representation on boards of directors.

We shall begin by examining the main parameters of joint action, as well as the general objectives and framework within which consultation among government, business and unions takes place. A second section will review events that have most influenced joint action initiatives and current experiments that seem to hold the greatest promise for the future. We shall continue with an analysis of the consultation environ-

ment, the specific attitudes and objectives of the various groups in relation to joint action, and some obstacles that impede development of the process. Finally, a fourth section will consider the prospects for progress in joint action in Canada and the conditions that favour such a development. It is important to emphasize at the outset that despite recent advances, joint action is still a relatively marginal phenomenon in Canada, particularly in comparison with Europe.

Our hypothesis is that there exist in Canada a number of barriers, seemingly insurmountable in the foreseeable future, to the establishment of corporatist, decision-making structures. These include, in particular, the broad decentralization of union, business and government organizations, important ideological differences, and the Canadian political system and culture. Nevertheless, in response to international and domestic economic developments, the three parties have made significant efforts in recent years to move toward concerted action and consensus. As a result of these efforts, obstacles are gradually being overcome, and a number of mechanisms for joint action have been set in place.

The organizations and mechanisms in question usually share the following characteristics: they are bipartite, including both business and union representation; they are gradually extending beyond the stage of information and consultation; they are moving toward consensus on specific, though limited, issues; and they do not play a decision-making role.

Joint-Action Mechanisms: Parameters and Objectives

From an institutional and structural point of view, joint action ideally should be viewed as a hierarchical process, the levels of which are defined by the degree of integration achieved by the participants. Corporatism, in its tripartite or multipartite form, undoubtedly represents the most advanced level of integration. As defined by Leo Panitch, corporatism corresponds to a specific and formal structure, established for the purpose of national economic planning that involves the joint participation of government, business and unions (Panitch, 1979). This definition implies the vesting of considerable decision-making power in the organizations in question, the exercise of some government control over the participants, and the authorization of the parties to commit their members when agreement is reached on economic and social objectives. In some cases, the operation of corporatist structures also involves a delegation of power by traditional political institutions, such as Parliament. In the final analysis, market forces are replaced to some extent by agreements and understandings negotiated among the parties.

Joint action, on the other hand, has a much broader meaning that is more readily identifiable with the Canadian situation. It can be defined

as a process involving voluntary cooperation between at least two protagonists, with a view to achieving consensus on questions that they themselves have defined. Although in most instances it is clear that the "partners" concerned are seeking to influence government policy, joint action does not necessarily imply that the government is central to the process. Joint action will usually be demonstrated in institutional forms, but it can also be unofficial and noninstitutional. The structures that result may be ad hoc or specific, as in the case of economic summits or task forces, or they may take permanent form as in the case of a productivity institute.

Joint action will not include the simple lobbying activities by which business or unions individually attempt to influence government decisions. Nor should it be confused with consultation, although the two processes are often linked, and consultative bodies frequently extend their activities into the sphere of concerted action. Unlike consultation, which is usually a one-way exercise, concerted action always implies an attempt to reach consensus.

We should emphasize that we are not trying to develop a theory of corporatism or of joint action. Our definitions are largely a function of our main objective, which is to examine the institutions and structures set up in Canada. We do not propose, therefore, to analyze corporatism or joint action as a social or political ideology. Nor shall we attempt to deal with such concepts as Léon Dion's (1979) concerted society; the corporatist state proposed by Clinton Archibald (1984); or corporatism in the context of the Canadian political culture as propounded by Robert Presthus (1973).

To understand the subtleties of concerted action in Canada, it is important to analyze the various levels in the process, including the groups' search for avenues of access; the initiation of dialogue; exchange of information; joint analysis of the situation; negotiations and compromises; achievement of consensus on solutions to be put forward; and finally, the setting up of institutions and/or mechanisms to facilitate a broader and more lasting consensus.

What has prompted the increasing interest in joint action in Canada in recent years? What general objectives are defenders of this process pursuing? As indicated in a number of reports submitted to the Commission, many observers see the adversarial relationships among business, government and unions as one of the main causes of Canada's present economic and political difficulties. Others are convinced that the mechanisms for joint action in such countries as Austria, Japan and Sweden could be a panacea for Canadian social and economic problems, both nationally and in the area of private enterprise. The claim is made, in particular, that inflation has been most successfully controlled in those countries in which there is a high level of social consensus (Barber and McCallum, 1982). It is also claimed that a strategy of generalized,

concerted action in business, through such mechanisms as joint committees and quality circles, has resulted in an appreciable improvement in productivity and performance (Archier and Serieyx, 1983).

Few government, business or union leaders see joint action as a panacea. In the present economic climate, they consider it an imperfect and partial approach, both to reconciling different socioeconomic interests and to establishing a more harmonious and stable environment, one that is more conducive to development. To judge from the numerous reports submitted to the Royal Commission on the Economic Union, the problems that seem to call most urgently for concerted action are the restructuring of industry and the establishment of a better balance between the leading sectors and those in decline. Other issues are the fight against inflation; productivity; manpower training and mobility; labour relations; adaptation to technological change; resource development; foreign-investment policies; working conditions; achievement of regionally balanced development; and the role of government in the economy. The list is indeed a long one. The fourth section of this paper will focus on determining which specific problems are most likely to give rise to productive discussions between business and the unions.

Where business is concerned, the main advantage to be derived from joint action is a stable environment, favourable to long-term investment planning. The business community seeks, in particular, to stabilize labour relations and wage levels, and to restrict government intervention. These objectives naturally should be achieved at the least possible cost and with as little sacrifice as possible of the business community's autonomy and freedom to manoeuvre.

Governments, in turn, are particularly desirous of legitimizing and gaining acceptance for their programs and policies. To the extent that they are able to build consensus, governments are assured in advance of the support of the groups concerned; this greatly facilitates implementation of their policies while minimizing conflict. The joint-action process is also a means of obtaining expert outside advice and information essential to the effective operation of government. In addition, the potential effectiveness of developing and defining government policy depends on obtaining information that concerns the positions and perceptions of other contributors to economic development.

The central union bodies, finally, have been conscious for several years of an erosion of their power, and they are looking for ways to compensate for the declining importance of collective bargaining. The economic downturn led to a loss of purchasing power for workers, the imposition by government of a policy of wage and price control, and consequently, a considerable reduction of unions' bargaining power. Unions, having decisively rejected the option of ongoing conflict in favour of "changing the system," have agreed, subject to certain conditions, to participate in joint-action organizations, and in some instances

they have even taken the initiative of proposing to set up the necessary structures. The unions' main objective is to gain greater control over their environment and to exercise real influence on the direction of technological, economic and social change, without being continually on the defensive.

Consensus Building in Canada: Context and Case Studies

Experiments in joint action have been numerous and varied in Canadian political history. We do not propose to make an exhaustive review, but rather we shall examine recent initiatives, in particular those of the last few years, which seem to us to be the most relevant in terms of understanding the present situation.

The first significant attempts at "tripartite" action were undertaken during the two world wars. The government enlisted the cooperation of the business community and the unions in both the war effort and the postwar reconstruction. During World War II, for example, a national manpower board was established to ensure that an adequate labour force was available for the war effort. This body, which included equal business and union representation, had a purely advisory function. In 1942, national and regional industrial boards were set up, again with equal representation from both parties, to manage the income-control policy adopted by the government in 1941. The status of the representatives was fragile, as indicated by the dismissal of one of the labour spokesmen following a disagreement with an employer representative. In the postwar period, however, a number of companies retained the joint management-labour committees that had been set up to ensure maximum production during the war (Panitch, 1979, p. 67).

It was not until the late 1950s, as a consequence of the recession and the example of tripartite planning experiments in Europe, that Canada again ventured into the area of joint action.

The Economic Council of Canada

In 1961, the government established the National Productivity Council, structured to some extent along the lines of certain European models, with the objective of improving industrial efficiency in an increasingly competitive, international arena. In 1963, however, the council merged with the Economic Council of Canada, an essentially research-oriented agency that was established to advise the government on long-term economic problems and to promote "economic consensus" in Canada.

In practice, the council today is almost exclusively an advisory body. It has not contributed significantly to the planning or coordination of economic policy, despite the role the government initially seemed to envisage for it (Malles, 1976; Paquet, 1968). The agency's potential for

joint action is severely limited, moreover, by its composition and method of appointing its members. The council is composed of 28 persons, including three full-time officers (usually economists), business people, elected municipal officials, officers of both the Canadian Federation of Agriculture and the Canadian Labour Congress, and a number of "independents." It is significant that all members of the council are appointed by the government and sit as individuals. Since members are not delegated by the associations to which they belong, they cannot claim to be representative.

In these circumstances, it is not surprising that there has been little inclination on the part of either business or unions to participate in the development of consensus within the council. Although the agency has sometimes criticized government policy, it has never attempted to mobilize the social partners. In addition to its advisory role, the council has served to provide information and economic education for the general public.

In 1976, the Canadian Labour Congress (CLC) decided to withdraw its representatives from the council as an expression of opposition to the income and wage controls imposed by the government in October 1975. It was clear, however, that labour considered the council a waste of time and resources, and held the opinion that it had no real influence in policymaking. An official of the CLC expressed the view that the council was not dealing with problems of concern to labour, that its studies bore little relation to the real world, and that labour representatives were always on the defensive, since they could do little more than react to proposals advanced by technocrats.[1]

Price and Income Control[2]

Under the combined pressure of galloping inflation, declining profits and unprecedented labour militancy, the government decided in 1968 to establish the Prices and Incomes Commission. Its objectives were to determine the causes of inflation, to recommend solutions and to introduce a policy of voluntary restraint with respect to prices and wages. The four members of the commission were appointed by the government and were not representative of the parties concerned. Beginning in the summer of 1969, and particularly during August and September of that year, the commission organized a series of official and unofficial meetings with representatives of business, the unions and the provincial governments, with a view to reaching agreement on a national program of voluntary restraint. The parties succeeded in arriving at a common diagnosis of several aspects of the problem, including the inadequacy of fiscal and monetary policies as solutions, the need for the commission to continue its research activities, and the lower social and economic costs of an "incomes" policy as compared with traditional methods.

On October 17, 1969, however, the Confederation of National Trade Unions (CNTU) and the CLC issued a joint statement, reiterating their demand for statutory controls on prices, rents and profits, but rejecting the proposals put forward by the commission:

> We reject outright the idea that voluntary guidelines can cope effectively with the current inflation. This is a highly simplified approach to a very complicated problem. It is totally impractical in a country like Canada. . . . Furthermore they [the guidelines] are highly inequitable. A standard wage and salary formula is highly discriminatory against people with low incomes, and would only result in the creation of income inequities. (Berger, 1979)

Despite this setback, the commission decided to continue its work until the end of 1970. A national conference on price stability, held in Ottawa on February 9 and 10, brought together more than 250 representatives of the business community. In a final effort to encourage the unions to support the voluntary restraint program, the participants agreed on a price-control policy, under which future increases would have to be justified by higher costs. The program was moderately successful in that prices advanced at a slower rate in 1970. In light of the unions' refusal to participate, however, the commission abandoned its work and its program.

There were further efforts to obtain consensus on price and income control between 1975 and 1978. Owing mainly to the energy crisis and international monetary problems, the inflation rate remained high. Faced with a drop in workers' purchasing power between 1970 and 1974, the unions fought back fiercely. Between January and May of 1975, the federal government conducted a series of intensive consultations involving members of the cabinet, unions and business leaders, with a view to reaching a consensus on measures to be taken. Once again, the unions refused to participate in the program. They were particularly critical of the fact that nothing was being done to ensure full employment, better pensions and control of capital expenditures by companies as a means of creating jobs.

Finally, in October 1975, the government decided to act unilaterally and imposed a three-year, anti-inflation program to control prices, profits and wages. The CLC and the CNTU refused to cooperate with the government or to appoint representatives to the Anti-Inflation Board (AIB), which accordingly functioned almost exclusively with only business representation. Despite the protests of the union movement and its attempts to mobilize opposition, the program succeeded in creating a substantial slowdown in the rate of wage increases.

Paradoxically, although the short-term effect managed to block attempts at joint action, both the period of government-imposed price and wage control from 1975 to 1978 and the failure to reach consensus

have been major factors in reinforcing the trend toward concerted action in recent years. On the one hand, it is easy to understand the unions' unwillingness to participate in restraint programs. The absence of permanent structures for joint action and the obvious objective of business and government to control wages fostered an atmosphere of distrust among the unions. Ideally, they should at least have been afforded an opportunity to exercise some influence in other areas of economic policy.

On the other hand, the most tangible result of the price-and-wage-control episode was a weakening of the organized labour movement. The *Anti-Inflation Act* represented a challenge and a threat to the collective bargaining process, which constituted the very cornerstone of union power. The CLC, having withdrawn from the existing joint-action mechanisms, had to find another solution and try to devise new ways to recover lost power. According to a CLC official, pressure from the rank and file had become very strong. Union members, although opposed to wage control, believed that the union movement should develop its own battle plan to combat unemployment and inflation.[3]

It was against this background that the CLC decided to take the offensive, and at its 1976 convention, it launched *Labour's Manifesto for Canada*. The objectives of the Manifesto are summarized by Stephen McBride:

> In operational terms the CLC outlined a bargaining position based on the achievement of a system of national planning which would aim at job creation and the right to employment; tax reforms and the protection of low income earners against inflation; redistribution of income; constraints on the power of corporations to set prices; and the subordination of private investment decisions to the interests of ordinary people. (McBride, 1983, p. 512)

What was proposed was the creation of a tripartite structure, in which the labour movement, the business community and government would have decision-making power that enabled them to formulate policies. The economic and social planning council would be accountable to Parliament for its activities, through the minister responsible, and would enjoy considerable authority in terms of examining bills and establishing new programs.

The CLC had no illusions as to the reaction of government and business to its proposals, but it upheld the legitimacy of its aspirations and made it clear that the other parties would have to "pay the price" for the union movement's support.

> Because of the close identity between business and government it is unlikely that either would willingly concede to share their power with labour. . . . Nevertheless, this is not to say that tripartism or the equal sharing of all powers between labour, business and government should not be an objective of labour since the wresting of power away from business and its govern-

ment in the interests of labour is our legitimate goal. This is the price industry and government must pay. (Canadian Labour Congress, 1976, p. 10)

The Manifesto was rejected, however, by the rank and file of the CLC. The factors underlying this negative reaction included, in particular, fear of being coopted, hostility to the government in relation to the *Anti-Inflation Act*, and fear of an increased concentration of power in the hands of the CLC executive.

Although the government rejected the proposal to set up a tripartite economic and social planning agency, it did put forward its own proposal in 1977, in a document entitled *Agenda for Co-operation*. The proposal recommended the establishment of a multipartite forum which would play an advisory rather than a decision-making role. Members would be chosen by the government in consultation with various groups, including corporations, labour, farmers, fishermen, consumers, professionals, cooperatives, and so on. There would also be provision for participation by federal ministers and provincial government representatives, probably as observers.

In a thinly veiled attack on the corporatist ambitions of the CLC executive, the federal document reaffirmed the primacy of Parliament in the decision-making process and in the inevitably consultative nature of the new body.

> Parliament itself is the most important national forum for the interchange of views on issues and policies. . . . Members of Parliament, who have a major responsibility to represent the views and concerns of their constituents, play a central role in this process, and there is no intention to diminish this role. . . . The forum itself would not have any decision-making powers with respect to government policies or programs. Any such powers would pose a challenge to the supremacy of Parliament and raise fundamental constitutional problems. Not being elected, the forum could not legitimately exercise any of the powers accorded to governments with the consent of the people. (Canada, 1977, pp. 28–30)

A reading of this document reveals a surprising lack of enthusiasm for joint action on the part of the government itself, which remained sceptical as to the possibility of obtaining consensus.

> Indeed, to strive for a consensus would imply an effort to bind participants to particular courses of action. Because the attempt would be unlikely to succeed, it could well frustrate discussions, divert energies, and endanger the healthy evolution of the consultation process as a whole. (Canada, 1977, pp. 32–33)

Task Forces

The failure of voluntary price and wage control and the breakdown of official discussions between the labour movement and the government did not prevent a continuation of relations on an unofficial basis.

Between 1975 and 1977, the government began to give serious consideration to the post-control period, to the need to establish a labour-relations system based on new values, and to the importance of obtaining consensus on industrial strategy and improvement of the climate between unions and employers. The unions and the business community, for their part, established a number of bipartite contacts in an endeavour to reach agreement on a means of ending the controls. There were particularly fruitful consultations between the CLC and the Business Council on National Issues, which resulted, as we shall see, in the establishment of the Canadian Labour Market and Productivity Centre.

These consultations paved the way for the setting up of various task forces. The most important of these was undoubtedly the task force on 23 industrial sectors and the task force on major projects (Langille, 1982, pp. 191–97). In February 1977, the Minister of Industry, Trade and Commerce took the initiative by launching a series of 23 sectoral studies on the Canadian economy. After a series of meetings with the provinces in late 1977 and early 1978, the federal government announced the establishment of 23 consultative task forces (Tier One), to be followed by another task force (Tier Two), which would endeavour to synthesize the sectoral reports and arrive at an overall industrial policy.

Initially, business people were the only participants in this process, but with the ending of the control period, the CLC agreed to become involved. To a considerable extent, it was incumbent on the government and the business community to seek the participation of labour. The potential for resistance by the unions remained high, and without a large measure of cooperation on their part, efforts with respect to the restructuring of industry, manpower reorientation and training, and increased productivity had little prospect of success.

Each committee or task force included from 20 to 35 participants, the majority of whom were business people. There were a few federal and provincial government officials and two or three union representatives. It was not surprising, therefore, that the priorities of the business community were reflected in most of the 860 recommendations produced by the task forces, whose mandate was to report on the main problems in their respective sectors and to suggest appropriate solutions. The minority reports filed by the unions were not even published in the final report.

In compensation, the CLC demanded and obtained equal representation on the task force designated to synthesize the sectoral reports. This second committee included five union representatives and was chaired by a jointly appointed coordinator. It is noteworthy that the CLC decided to delegate five members of its executive for this new series of consultations.

Early in 1978, the Minister of Industry appointed another task force, whose principal objective was to maximize the benefits of megaprojects planned from the 1980s through to the end of the century. The goal was to

promote manufacturing, financial and technological development that would be favourable to the Canadian economy and that would create as many jobs as possible. The group, it should be added, was evenly balanced, with 30 representatives from business and 30 from the unions, under the joint chairmanship of Shirley Carr, vice-president of the CLC, and Robert Blair of Nova Corporation. The federal and provincial governments were limited to the status of observers. The business community and the unions were in agreement that the role of government should be reduced as much as possible, a view that foreshadowed the structure of the Canadian Labour Market and Productivity Centre. Another significant feature was the decision by both parties to hire business and union consultants as coordinators, thereby establishing the principle of having independent sources and resources available when participating in consensus-building exercises with the government. Finally, the task force carried out its work for the most part in camera. The participants, particularly the unions, seemed to fear that public debate might give rise to dissension in their ranks.

Although most of their recommendations were never implemented and many of the megaprojects were abandoned, the activities of these various task forces undoubtedly had a major impact on the process of consultation and joint action in Canada. In the difficult and antagonistic atmosphere that prevailed subsequent to the controls, negotiations within the task forces demonstrated that management and unions could not only work together, but could adopt common positions on many issues. This was the first concerted effort of its kind, involving employers and unions, in the country's history. While the actual results were unimpressive from the unions' point of view, the CLC considered the encounters a positive experience.

In more practical terms, it was during these discussions that business and unions laid the groundwork not only for long-term bipartite consultations, but for the eventual institutionalization of their relationship. It is noteworthy that task forces are occupying an increasingly prominent place in the consultation and joint-action process; they have undoubtedly become the most frequently used mechanism in recent years. Since 1968, the federal government has instituted more than 100 task forces.[4]

Briefly, the characteristics of a task force are as follows:

- It is usually convened by a department of government, with precise terms of reference.
- It is expected to present its report within a period of from six to twelve months.
- It rarely comprises more than a dozen members, and the cost is not exorbitant (from $25,000 to $100,000).

On the basis of interviews with some 60 task-force participants, Cassandra Blair, in a study for the Conference Board of Canada, stresses

the satisfaction expressed by the parties concerned, as well as the positive impact of task forces on the consultation environment. Among the positive features, she refers to the opportunity of discovering the constraints to which other participants are subject, of discussing in depth existing or potential problems, of raising the level of debate in the opinion of the public, and of establishing useful "informal" contacts (Blair, 1984, p. 93). It should be emphasized — and we shall return to this point — that task forces have a purely advisory function, and that government is not bound in any way by their recommendations.

The Canadian Labour Market and Productivity Centre

The Canadian Labour Market and Productivity Centre is the joint-action agency with the greatest potential. The centre came into existence as a result of an amalgamation of the productivity centre (set up in September 1983 to advise the government on labour-market conditions and specialized, manpower-training policies) and the labour market institute, which was proposed by the CLC and the Business Council in 1978.

The creation of the centre, which was officially established on January 27, 1984, resulted from six years of intensive lobbying on the part of business and the unions. As mentioned earlier, its origins go back to the bipartite meetings that followed the adoption of the *Anti-Inflation Act*. When the business community decided that it, too, would oppose maintenance of price and wage controls, the door was open for a common strategy with respect to the government. By the end of 1976, CLC officials and executives of member companies in the Business Council were already meeting in Montreal under the auspices of the C.D. Howe Institute.

In a more direct sense, the establishment of the centre stemmed from the report of the task force on the industrial sectors (Tier Two), which had recommended creation of an independent agency to evaluate long-term manpower requirements and to ensure that manpower training was based on need. The two parties were in agreement as to the ineffectiveness of the labour market and of reorientation and training programs, the deficiencies in the education system, the obstacles to mobility, and the lack of basic information with which to develop effective policies — factors that in their view were contributing to the high level of unemployment. Both parties agreed in principle that they should assume a more direct role with respect to the labour market, and in December 1981, the CLC and the Business Council reached consensus on the need to establish a labour-market institute.

The main points of this proposal were accepted by the government. The centre has 40 members, including 12 representatives each from the business community and the unions. In addition to two university representatives, who are appointed jointly by the two parties, there are 14 government members, including at least one from each province. Only

the business and union representatives have voting rights. The central labour bodies represented are the CLC (nine seats) and the Canadian Federation of Labour (three seats). On the business side are the Canadian Manufacturing Association, the Canadian Chamber of Commerce, the Canadian Federation of Independent Business and the Business Council. Although the government retains the nominal right to select the members of the centre, it has undertaken to accept nominations offered by the union and business organizations. This undertaking represents a considerable step forward, considering previous structures. It is noteworthy that the government was slow to lend its support to the establishment of the centre, since its preference was for purely advisory agencies in which it essentially retained control. It feared that the centre would become a forum for critics of its policies, and it had no wish to be subjected to pressures based on common positions taken by business and the unions.

The bipartite character of the centre is reflected in its structure and in all its activities. Under the joint direction of Shirley Carr of the CLC and Thomas Aquino of the Business Council, a 12-member executive committee — six members each from the unions and the business community — will coordinate operations and meet at least six times a year. Bipartite sectoral committees will play a pivotal role and will be assigned to study specific problems in designated sectors.

The centre's official objectives are to advise the government on the operation and management of the labour market, to facilitate the introduction of technological change and innovation, to promote practices that will make Canadian firms more competitive in both domestic and international markets, and to improve productivity on the basis of common effort.

The centre will submit an annual report to the minister of finance, who is responsible for its activities. The government has undertaken to contribute $27 million to the centre's operation over the next four years. It has also agreed to provide data and produce analyses that may be required by the centre. Under its mandate, the centre enjoys a substantial degree of autonomy and can initiate investigations into problems it considers particularly significant, using outside consultants if it sees fit.

Some Recent Provincial Experiments

Ontario Labour Management Study Group (Formerly the Advisory Committee on the Quality of Working Life)

In Ontario, the most interesting and possibly the most promising experiment is undoubtedly the Ontario Labour Management Study Group, established in 1977 as an initiative of the Ontario cabinet. The group is composed of five business and five union representatives. T.E.

Armstrong, deputy labour minister, describes its general objective as follows:

> It was believed, then and now, that too few opportunities exist for senior labour, management and government leaders to discuss and promote ways in which new approaches to work organization may improve productivity and at the same time, enhance the nature and quality of the working environment. (Armstrong, 1984, p. 8)

In its early years, and until recently, the group was mainly engaged in directing the activities of the Quality of Working Life Centre, which initiated a number of pilot projects in Ontario companies aimed at increasing worker autonomy and participation. In 1983, the group decided to turn its attention to broader political and economic issues — in particular, the adversarial nature of labour relations, the legitimate role of workers and unions within industry, the possibilities of cooperation in the search for solutions to economic problems and for means of improving productivity, and the competitive position of business.

The extension of the group's mandate stemmed from the climate of confidence that developed during its first years of operation. By inviting the deputy industry and trade minister to become a member of the group, the group took a first step toward the broadening of its mandate. Its next initiative was to organize a two-week study trip for the purpose of analyzing experiments in joint action in three countries, Sweden, Austria and West Germany, and for assessing the extent to which greater cooperation among the principal actors had resulted in better economic performance.

The objectives envisaged under the group's new terms of reference include maintaining permanent structural links between union and business leaders, with a view to exchanging information and developing consensus on major economic and social problems, and encouraging the business community and the labour movement to work together to improve their relationship. The group has adopted a quiet, low-key style of operation that shuns publicity and is based on the assumption that frankness and open-mindedness are more likely to develop in such an environment. The three primary areas for joint action are productivity (including adaptation of the labour market to structural and technological change), the competitive potential of Ontario business at the international level, and labour relations in Ontario (including the collective bargaining process). These concerns are substantially broadening the role of the committee, and they constitute an important step toward discussion of the extended objectives defined in 1983.

La Commission consultative sur le travail (Québec)

In March 1984, the Quebec government set up the advisory commission on labour, in order to promote consensus among the business com-

munity, the government, unions and the other social partners on labour relations, and in particular, to initiate a major revision of the Labour Code. The commission is to submit its report before June 1985 and present appropriate draft legislation. As an encouragement to consensus, arrangements were made for the commission to hold regional and national hearings, to hear evidence from outside experts, and to organize a series of conferences and round-table discussions involving the main protagonists. In addition, it must organize economic summit meetings on labour relations. At this level, the commission's role will be mainly that of mediator, in that it will act as a catalyst to facilitate consensus among the participants. Groups other than business, government and labour are also to be involved in the commission's work, notably nonunionized, private-sector workers. The commission's five members include a former unionist, a businessman and two professors; its chairman, Mr. Justice Beaudry, is a specialist in labour law.

It is significant that such a multipartite undertaking should have been considered impossible in 1977, when the government was involved in major amendments to the Labour Code. According to Labour Minister Raynald Fréchette, the parties were not prepared at that time to engage in a process of this kind because of their excessive politicization. It is a revealing indication of the change in union and employer attitudes in Quebec, where conflicts between the parties have always been particularly bitter, that the commission's initiative has now become possible. Mr. Fréchette even speaks of a new social contract:

> This undertaking is now feasible because the parties, on both sides, have adopted a new approach and are indicating a desire to participate. In the troubled area of labour relations, it is important to seize the opportunity when the parties are prepared to review their positions, in order to bring about a change of attitude and if possible arrive at a new social contract. . . .
>
> It is essential, therefore, that concomitant mechanisms for consultation and concerted action be set in motion to obtain the broadest possible consensus, since it is the partners themselves who must determine their own concerns and the conditions required for better labour relations. (Translation.) (Fréchette, 1984, p. 4)

The setting up of the commission, however, was not accomplished without difficulty, and it is far from certain that consensus will be reached. At present, there is general agreement as to the urgent need for revision of the Labour Code, the necessity of re-examining the excessively litigious approach to labour relations, the importance of weighing the economic impact of settlements reached at the bargaining table, and the need to look into certain practices associated with collective bargaining, including strikes and lockouts.

The Conseil du patronat du Québec (CPQ) and the Confederation of National Trade Unions (CNTU) have strongly criticized the unilateral and authoritarian character of the government initiative. They have

expressed their dissatisfaction with the terms of reference, the operating procedures and the method used to select the commissioners. It seems that the government disregarded a number of recommendations made jointly by business and the unions, on the grounds that to guarantee the democratic character of the exercise, it was necessary to promote representation from other groups.

The CPQ has reacted negatively to the exclusion of the public sector from the agenda and to the "politicization" of the government initiative:

> The political orientation being given the initiative [is evident] for example in the organization of socio-economic conferences, where the government probably hopes to capitalize politically on "photo opportunities," as though the Labour Code could be negotiated in the marketplace. The CPQ goes on to say that it is naïve to expect the formula of the socio-economic conference, which may be an effective means of reaching agreement on such issues as reducing customs duties on textiles, to be equally successful when the debate has to do with anti-strikebreaking provisions. (Translation.) (Conseil du patronat du Québec, 1984, p. 6.)

For the unions, the chief concerns seemed to be freedom to organize an industry-wide (multipatronale) certification. While the Quebec Federation of Labour (QFL) willingly agreed to take part in the proceedings, the question of participation provoked a lively debate in the Confederation of National Trade Unions. It must be remembered that for at least ten years, the CNTU has criticized and frequently boycotted various participatory forums. A recent decision of another kind indicates a change of heart on the part of the CNTU. During the 52nd biennial convention held in May 1984, the central body, while rejecting corporatism, decided to resume relations with the occupational health and safety commission (CSST) and to occupy a seat on the board of directors. The CNTU, it will be recalled, withdrew from the CSST in 1982, expressing fears of class-oriented collaboration and co-option. This time, however, the CNTU president declared that "our policy of participation is a strategic, rather than an ideological or political policy . . . and it is important not to underestimate our capacity to promote, to influence and to persuade."[5]

New Brunswick Industrial Relations Board

Toward the end of the 1970s, serious labour-relations problems developed in the construction sector in New Brunswick. Acting on a recommendation contained in a government report, Premier Richard Hatfield undertook to negotiate with representatives of labour and management. These negotiations resulted in the establishment of the Industrial Relations Board on April 9, 1981. The board, which is financed by the government, is bipartite in structure and plays an essentially advisory role. With a membership of 60, it is one of the largest agencies of its kind

in Canada. The board presides over the activities of three commissions: the construction industry commission, the industrial sector commission and the public sector commission, each comprising 20 members, with equal representation from employers and unions. The three commissions report to a 12-member executive committee made up of two management and two union representatives for each commission. As a result, there is a management caucus and a worker caucus, each including six members. It should be mentioned that members are appointed by employer and union associations in the sectors with which the commissions are concerned.

The board's role is to consider any question having to do with employer-employee relations, with the aim of improving the labour-management climate in New Brunswick. Such questions include collective bargaining, grievance procedure, training, productivity, labour standards, occupational health and safety, the availability of qualified workers, and any law, regulation or proposal relating to these areas. When a commission reaches agreement on a recommendation, the matter is referred to the executive committee, which, if it approves the recommendation, then submits it to the government. Since 1981, the board has formulated recommendations on a number of subjects, including negotiations in the fishing industry, employment standards, the *Industrial Relations Act*, essential services, the certification process, and labour relations in the public sector.

According to the participants, the government has so far almost invariably agreed to act upon their recommendations. There is general agreement, also, that the board has been a moderating influence in union-management relations.

Economic Advisory Council (Manitoba)

The Economic Advisory Council had its origin in an economic summit held in the fall of 1982 and in subsequent informal discussions among the participants. The success of the summit and the climate of confidence established among the parties led to the setting up, in the spring of 1984, of a more formal structure, which was aimed not only at improving the consultation process, but also at promoting consensus on economic questions. Issues to be dealt with include unemployment, technological change, world economic conditions, labour legislation and any other matter the council may see fit to consider.

The council is made up of 20 members, including six employer representatives, six union representatives, and the ministers and deputy ministers of Energy and Mines; Labour; Economic Development and Tourism; and Industry, Trade and Technology. The main business and union associations may appoint their representatives, and the council is under the direction of the Minister of Economic Development and

Tourism. The council, which is financed by the government, will meet at least four times a year; it will be empowered to undertake research projects and expected to support the efforts of task forces on the economy, as well as be responsible for organizing an annual economic summit on the principal economic problems affecting Manitoba. Except for the summits, however, its activities will not be public, and the council will be under the authority of the ministerial economy and resources committee.

The first meeting of the council was held on June 14, 1984, and it is therefore much too early to assess its impact. The question posed by Samuel Uskiw (1984, p. 2), economic development and tourism minister for Manitoba, can be applied to all similar experiments in Canada.

> The key question is, can we, in the province, create a forum where all key elements of the economy can meet, can discuss, can make recommendations on the many complex problems facing us. We in the government are convinced it can be done.

Economic Summits in Quebec

In the context of its projected social democratic society, centred on political participation by all sectors of society, the Parti québécois organized a series of 22 socioeconomic conferences between May 1977 and April 1982, including three "summits" that addressed Quebec's economic problems in general. In addition, there were 17 sectoral mini-summits, focussing on such areas as textiles, agriculture and food, fisheries and the cultural industries, and a series of regional conferences, notably for the Quebec City, Montreal and Eastern Townships areas, aimed at encouraging local groups to explore solutions to their problems.

The long-term objective of the Quebec government was to develop "a new social contract," based on a joint tripartite approach in a number of sectors. In exchange for "social peace," the partners would be invited to engage in economic planning and to participate in all basic economic decisions. This cooperative initiative would eventually be formalized in the establishment of a tripartite economic and social council, in which the government would assume an arbitral role.

In the short term, the summits were intended to bring about harmony between employers and unions. The government hoped to diminish the militancy that had characterized the union movement for nearly ten years, and at the same time to convince employers, in an uncertain postelectoral climate, of its intention to abide by the rules of the game in economic terms. The first step was to establish a pattern of dialogue and cooperation between the actors, to have each partner acknowledge the legitimacy of the other, and to "educate" and inform employers and unions with regard to their respective rights and responsibilities, as well as the economic constraints to which both groups were subject.

Generally speaking, the economic summits can be described as relatively productive; a greater number of agreements and practical measures resulted from the sectoral meetings than from the general summits. As could be expected, the latter became opportunities for the participants to expound their traditional views. Legislation adopted as a result of the summits included the establishment of a multipartite, advisory committee on fisheries, a new Crown corporation for the development of the cultural industries, an export agency for products of the agriculture and food industry, the Corvée Habitation program (aimed at providing mortgage aid for buyers of houses and creating 50,000 jobs in the construction sector), and the Opération solidarité économique (OSE) program, which instituted a series of economic measures involving the participation of the various economic actors at the regional level.

In terms of the attempt to develop a more harmonious relationship between employers and unions and the desire to promote concerted action, the summits were largely unsuccessful. Neither employers nor unions were prepared to place the "national interest" before their particular interests. Mainly as a result of the repeated recourse to special legislation to curb strikes in the public sector, the unions, in particular the CNTU and the Quebec Teachers Federation (CEQ) remained distrustful of the government and on several occasions went so far as to record their opposition in principle to institutionalization of joint action. The business community, for its part, continued to be ill at ease with the Quebec government's sovereignty option.

More specifically, the method of conducting the summits constituted an obstacle to consensus. In the first place, the government assumed a central role at all levels of the proceedings, including organization, selection of participants, establishment of the agenda and topics for discussion, and preparation of background material. Decisions as to the timing of summits on particular topics were also made by the government. The unions, particularly the CNTU, frequently expressed dissatisfaction with the agendas, which in their view failed to deal with the problems of greatest concern to the workers.

The public exposure given the summits and their structured form were undoubtedly a further obstacle to real concerted action. Once a participant had presented an analysis of the problems and put forward solutions, it was very difficult for that individual to modify his or her initial point of view or to conduct meaningful negotiations before the television cameras, despite the government representatives' efforts at mediation. The situation was aggravated by the number of participants — about 100 for the general summits, not including consultants and observers — which tended to paralyze the proceedings.

Finally, divisions within the union and employer parties, to which we shall return, constituted another major barrier to consensus. In addition to divergences between small business and the large corporations, the question of independence was a source of tension among members of the

business community, although the majority were resolutely opposed to sovereignty. For the unions, the isolation of the federation of democratic unions (CSD) from the other central union bodies and the problems between the public and private sectors are but two examples of the lack of cohesiveness in the labour movement.

Later in this discussion, we shall look more closely at the various factors impeding the development of consensus in Canada, and also at the conditions that favour the emergence of more advanced forms of concerted action.

On the basis of the case studies presented in this section, however, some conclusions can be drawn. In the first place, joint action is still at an embryonic and fragile stage of development in Canada, and is a fairly recent and relatively marginal phenomenon in political terms. There continues to be much more consultation than actual concerted action. Negotiations among the partners and efforts to reach consensus remain the exception rather than the rule. It seems clear, however, that there has been definite progress toward joint action in recent years.

This progress is attributable in large measure to the changed attitudes of the partners. For both employers and unions (for reasons that we shall explain in the next section), there have been efforts to ameliorate the climate of hostility and suspicion and a willingness to cooperate in joint-action experiments. The government, which has tended in the past to use consultation merely to justify its policies, has also shown a more open attitude toward joint action. The federal and provincial governments have not only contributed financially, but have granted a considerable degree of autonomy in several areas, allowing the partners, for example, to decide the agenda for their meetings and to call upon their own experts. In addition, the government has, in a number of cases, recognized the principle of equal employer and union representation.

Paradoxically, despite the power of a ruling party with social-democratic leanings, Quebec is an exception to this general trend. In organizing its economic summits, Quebec obviously set itself ambitious objectives in terms of concerted action. In contrast to other provinces, however, the Quebec government retained the central role in the process. It adopted an interventionist approach, maintaining control over the various stages of consultation and joint action, and seemingly fearful of allowing the partners too much independence. As demonstrated in the summits and in the advisory commission on labour, the Quebec government elected to make the search for consensus an open and public process, involving in most instances televised debates between the partners. This approach is very different from that adopted by provinces such as Manitoba, New Brunswick and Ontario, which have preferred to operate quietly and informally and with as little publicity as possible. Quebec's method is also less productive.

The Quebec government's attitude is attributable in part to the greater

polarization of employers and unions in that province. Such was the degree of suspicion and hostility, in fact, that the government saw no possibility of establishing any formal or ongoing joint-action structure in the short term. At the federal level, and in the other provinces, the governments opted for a less dominant role, partly to avoid the risks inherent in a tripartite approach. The governments were apprehensive, in fact, that the various committees would become forums in which their decisions could be criticized and additional pressure brought to bear.

The Impact of Structural, Ideological and Situational Factors on Joint Action

We shall now attempt to evaluate the obstacles that are impeding progress toward corporatism and joint action in Canada. We shall also examine the factors that favour the extension of existing mechanisms and the establishment of new structures to promote consensus on the main economic and social issues. The development of a concerted approach is influenced by structural factors such as regionalism, foreign ownership of much of the Canadian economy, and the decentralization of political, business and union organizations by ideological factors (in particular, differing perceptions of the role of government) and by situational factors that impel the parties to assess the immediate advantages and disadvantages of their positions.

Gordon Digiacomo (1978), in a master's thesis on the institutional barriers to corporatism in Canada, comes to the conclusion that the lack of structural cohesiveness among the parties hinders the development of corporatism. In a more comprehensive analysis of the joint-action process in Canada, David Langille (1982) expresses the view that recent efforts by the parties are gradually bringing down the barriers. It is important to bear in mind that the obstacles to both corporatism and joint action, while frequently indistinguishable, are not necessarily identical. In our view, for example, a strong union movement and the presence of a social-democratic party or government are factors that favour corporatist structures. Joint action, on the other hand, tends to develop to a greater degree when the labour movement has limited political power and is not in a position to impose its participation in the decision-making structures. At the end of this section, we shall attempt to summarize the conditions that have favoured the emergence of joint action in Canada.

General Context and Present Situation

One of the most positive factors favouring the development of consensus-building mechanisms is undoubtedly the importance attached by the various social and economic groups to the improvement of relations

between the parties, and the new will to achieve harmony among the "partners." As early as 1978, the Conference Board of Canada, after organizing a series of "tripartite" round-table meetings in Ottawa to discuss mechanisms for consultation and consensus, came to the conclusion that efforts toward joint action should be increased. J.R. Nininger, the council chairman, had this to say:

> In recent years, there has been increasing concern among Canadians that the institutions representing the various sectors of society have failed to efficiently take part in the discussion of and formation of national policies and goals.
>
> Currently, there is a broad public concern over the viability and proper role of existing consultative and consensus mechanisms in improving the relationship among decision-makers in order to increase the general efficiency and effectiveness of the economy and the quality of Canadian society. (Conference Board of Canada, 1978, p. 9)

Although the briefs submitted to the Royal Commission on the Economic Union contain few concrete suggestions, they do bear eloquent testimony to this concern. On the business side, there is particular emphasis on the link between the country's economic problems and the adversarial character of relations between the actors. The following are some examples:

> If we are to accelerate the adoption of a flexible production system and reap the benefits which a highly educated work force can provide, then government, management and labour must find ways of developing a more collaborative relationship. (Canadian Manufacturers Association 1983, p. 37)
>
> It is clear that the isolation in which the current Canadian governmental decision-making process operates only serves to exacerbate the rifts and antagonisms that plague our institutional relationships and prevent Canadians from resolving our economic problems. Ultimately, we must devise a mechanism for consultation and co-operation between the three solitudes — government, business and labour. (Gulf Canada Limited 1983, p. 21)
>
> If government does establish long-term goals and objectives, this should only be done in consultation with both business and labour. Such consultation, to be successful, must go beyond simply hearing from business and labour; it would necessitate ongoing consultation in the development of a national consensus. (B.C. Central Credit Union 1983, p. 12)

The union briefs indicate an equal desire to become involved in joint-action mechanisms and a similar perception of the urgent need for improvement in relations between the parties. Evidence of this can be found in the willingness of the CLC, despite tensions within the movement, to become an active participant in the Canadian Labour Market and Productivity Centre. Even the CNTU has shown a much more open attitude to joint action in recent months. The Centrale des syndicats démocratiques (CSD) (1983, p. 12), in turn, is of the view that "any

economic development model must be based upon joint action in a global sense, extending from participation at the working level." The Canadian Federation of Labour (1983), for its part, suggests the establishment of a tripartite body with broad terms of reference.

> We would suggest that once the process of establishing goals and objectives has begun to show progress, a Labour-Business-Government body should be established to monitor our success in meeting these objectives. This body could cooperatively work to set timetables against which to measure progress, study levels of achievement, and recommend changes or revisions to policies or programs to ensure greater effectiveness.

Generally speaking, the unions and the business community seem to have reconsidered their negative positions with regard to joint action. Union members for the most part no longer see the process merely as a means of integrating workers into the capitalist economic system and thus serving to curb labour militancy. The majority of employers have ceased to regard joint action as interference by unions and government in the free-enterprise system or as an attack on management rights.

Ideological Differences between Unions and Business

Although the recession has brought unions and business closer together, as we have seen, and the divergences of ten years ago have narrowed, the parties' opposing political and ideological convictions, particularly in relation to the role of government, the status of unionism, economic priorities and foreign investment, remain one of the main obstacles to the effective operation of mechanisms for consensus. This is evident from the first series of briefs submitted to the Commission.

The business community tends to recommend a non-interventionist approach by government, considering its main function to be the establishment of a favourable climate for investment. It sees government intervention as one of the principal causes of the economic recession[6] and is therefore categorically opposed to any expansion of the state's present role. It is particularly critical of government involvement in profit-oriented activities and condemns excessive regulation as stifling innovation and discouraging investment. Campeau Corporation (1983), among others, made a comprehensive analysis of government regulation in several sectors, including energy, foreign investment, agriculture, prices and wages, and housing. It was harsh in its judgment of the effects of regulation on the Canadian economy and recommended that a number of government agencies be abolished.

High on the list of priorities cited almost unanimously by businessmen are:

- an "open policy" with respect to foreign investment;
- the need for more investment in research and development;

- a reduction of the tax burden on business;
- opposition to the establishment of a national industrial policy;
- elimination of interprovincial trade barriers; and
- the need to increase productivity and manpower training.

For the unions, prosperity lies in a different direction. They place great stress on full employment; an industrial policy favouring the development of a national Canadian economy; job security; stricter regulation of foreign investment with a view to maximizing employment in Canada; and on a government prepared to become actively involved in the pursuit of these objectives.

The brief submitted to the Commission by the CLC is representative of the unions' point of view on these issues. The accent is on unemployment and the distribution of wealth. It urges Keynesian measures to stimulate employment and demand, greater control of the resources and the economic levers of the country, more extensive regulation of the banking system, government investment to stimulate regional development, a strengthening of FIRA, and more control by workers over their pension funds.

All of these measures obviously involve a considerable role for government, which may seem paradoxical in light of the unions' complaint of the subordination of the machinery of government to the needs of big business. It is significant, moreover, that the CLC felt it necessary to emphasize that the Canadian government is not as interventionist as it is made out to be.

> The fact is, of course, that Canada, as a country, does not have an unusually large government. Of the seven largest western economies, Canada is 5th in the relative size of its public sector and the ratio of government expenditures to GNP grew in Canada less than the average for the OECD as a whole over the seventies and into the eighties. (Canadian Labour Congress, 1983)

In general, the unions favour an expanded role for the state. They believe that government should be actively engaged in economic planning, and that this should be a democratic exercise, involving the participation of workers and unions.[7] In the words of the Manitoba Federation of Labour (1983, p. 9), for example:

> Government must take a positive role, directing and redirecting investment flows to create balanced and equitable growth, and to ensure all-round development for the benefit of Canadians.

Finally, the unions attack the political and economic domination exercised by the major financial interests in the country, as well as business and government socioeconomic priorities that rank profit above the public interest. They are particularly bitter over what they perceive as the refusal of business and government to recognize their social legitimacy and to facilitate access to unionization. As a result of repeated

government action to control wages, difficulties in negotiating technological changes, and a rate of unemployment that diminishes their bargaining power, unions are conscious of their weakness and feel a considerable sense of insecurity with respect to business and government initiatives.

A recent study prepared by Michael Ornstein (1984, p. 34) of the Institute for Behavioural Research at York University confirms, on the basis of interviews and questionnaires, what he describes as an enormous ideological gulf between capital and labour. The vast majority of business people are in favour of strikebreaking, are against employee representation on boards of directors, against a guaranteed annual income, against the policies of FIRA, in favour of legislation aimed at reducing the power of the unions, and in favour of cuts in social services. Union leaders adopt a contrary position on all of these issues.

It cannot be denied, however, that economic conditions, among other factors, have lessened the ideological differences between employers and unions. The less polarized ideological context may therefore be regarded, under present conditions in Canada, as one of the factors contributing to the development of joint-action mechanisms.

The Government System and the Canadian Political Culture

The prospects for concerted action in Canada are influenced to a considerable degree by the country's political culture, which is strongly individualistic, committed to free enterprise, and opposed to too predominant a role by government, as well as being influenced by a political system that is based on parliamentary government and federalism.

The relatively decentralized federal structure of government in Canada is undoubtedly one of the ~~most obvious~~ obstacles to the establishment of decision-making corporatist mechanisms. As Leo Panitch (1979, pp. 82, 83) points out, in most countries where corporatism has developed, there has been a clear trend toward centralization of powers. In Canada, the provinces retain a significant political role and considerable economic weight. This is attributable particularly to the presence of two language groups, one of which is concentrated in Quebec, to the distribution of powers provided by the *BNA Act*, and to the existence of areas of significant economic power at the regional level.

It is not uncommon, in fact, for provinces to pursue economic objectives and "industrial strategies" relatively independent of those of the federal government. Some provinces and regional capitals, for example, have promoted a north-south trade strategy, to the detriment of the east-west development policy advocated by the federal government. In addition, the provinces have complete or federally-shared jurisdiction in a number of areas, including natural resources, land control, health, welfare, education, urban affairs, transport and labour relations. In the last-

named sector, each province has its own labour code, and although many provincial laws are modelled on federal legislation, rationalization is usually a complex matter, particularly in the area of national sectoral, collective bargaining.

The overall economic influence of the provinces and municipalities, moreover, is substantial. A large proportion of public capital expenditure is controlled by these levels of government, as well as some 60 percent of all government spending in Canada. Provincial governments, in promoting their own industrial development programs, preferential purchasing policies and local grants, are actuated by economic objectives that are frequently at variance with the concept of an integrated economy and do little to stimulate the free circulation of capital. In view of the substantial amounts required, provincial decisions with respect to capital expenditures in the natural resource and energy sectors often taken on major importance in terms of the national economic situation.

In this context, federal-provincial conferences and other coordinating mechanisms that involve the two levels of government are essential means of achieving consensus. At the same time, the existence of a decentralized federalism serves to complicate attempts at a national economic planning. To ensure the effectiveness of the process, it is important that the provinces be involved in any effort to establish national economic or social priorities. Joint action, given its greater flexibility and more moderate demands, is much better adapted to a federal system.

The problem of inter-sectoral competition and the regionalism of the Canadian economy, which stems in part from the federal structure of the country (though it exists also in many unitary systems), is a further complicating factor in developing consensus among the parties. As the Economic Council of Canada (1983, p. 80) points out:

> The regional diversity of Canada makes consensus-building extremely difficult. The federal government must balance the conflicting demands between sectors of the Canadian economy in need of protection (textiles, garments, autos, and footwear) and sectors that are export-oriented (mining, forestry, and grains). This sectoral problem is also a regional issue. The West, for example, has a rich resource base and a strong agricultural sector but a relatively small manufacturing sector and service sector. Much of what it produces is exported to the United States, Japan and a number of other countries. Central Canada, on the other hand, is mainly based on labour-intensive secondary manufacturing and a large service sector.

As is the case with business and the unions, there are divisions within the government itself that have a bearing on consensus building. Some departments are more sympathetic to the business community's priorities and positions, while others may identify with union objectives. As David Langille indicates, the Department of Labour, for example,

while it has never had a great deal of influence within the government, "represents" organized labour to a certain degree. Some of this department's initiatives, including the setting up of various agencies for consultation and joint action, may therefore be perceived in part as efforts to enhance its status and that of its minister within the government.

Government departments and agencies and paragovernmental bodies often differ widely in their approach to such issues as labour relations, foreign investment, protectionism and free trade, the role of government and the relevance of joint action mechanisms.[8] This situation is not peculiar to Canada, however; it affects all countries, even those in which joint action is further developed. It should not be regarded, therefore, as an insurmountable obstacle.

Corporatist structures, and to a lesser extent the process of joint action, run counter to historic tradition and to Canadian political culture. North American liberal democracy places the rights of the individual above collective rights. There is a tendency, therefore, to perceive interest groups as being undemocratic, and to react negatively to any structure or intermediary interposed between citizen and government. In the name of individualism, there is also a reluctance to delegate powers to organizations or to be represented by them. Those who subscribe to this opinion, which has considerable currency in Canada and the United States, are opposed to interference by governments or unions in the market forces, and accordingly reject not only a decision-making role for the unions, but an overly interventionist government. Since corporatism by definition implies active government involvement in socioeconomic planning, and since government interventionism has given rise to questions in recent years, the potential for corporatist structures in Canada would seem slight. Some specific features of the Canadian political culture, however, set the political context of this country apart from that of the United States. As Leo Panitch has shown, corporatist ideology, in a broad sense, has had a certain influence in both English Canada and Quebec. There is reason to believe, therefore, that the political environment in Canada is more open to corporatism and joint action than is the case with its neighbour to the south.

A number of writers, including Leo Panitch, maintain that the absence of a social-democratic government at the national level, with its ties to a strong union movement, is the main reason for the lack of corporatist structures in Canada. To judge from the experience of various European countries, this would seem a determining factor. There is no doubt that the weakness of the union movement and its limited political power have contributed to the development of joint action. In light of the refusal by business and government to grant unions a decision-making role in a national planning structure, unions have largely had to be satisfied with expressing their views within joint-action organizations.

The Canadian parliamentary system can also be said to have a bearing

on the joint-action process, in that in some quarters there is opposition in principle to having decisions that affect the nation partially made outside Parliament. This is the view of the Retail Council of Canada (1983, p. 80):

> Thus, the consultative process in Canada's Parliamentary system can never evolve into economic and social planning in which decisions are shared formally and equally by business, labour and government. It is the politicians who are ultimately held responsible by the electorate, and it is they who must decide. To expect otherwise is to bring into question the very nature of Canada's political system.

Here again, however, the obstacle is not insurmountable. Many countries with parliamentary systems have succeeded in establishing much more advanced mechanisms for joint action than has Canada.

The Canadian public's negative perception of the union movement is another aspect of Canadian political culture that affects the development of joint action. Whatever may be the reasons for the situation, there is no doubt that the legitimacy and credibility of union organizations are at a low ebb in Canada. The negative attitude of the public has been confirmed in a number of surveys.[9] More than 48 percent of Canadians consider that the government has not intervened enough in union affairs; this figure is 7 percent higher than the percentage who expressed the need for more government intervention where major corporations are concerned. In addition, 43 percent of Canadians regard unions as the most serious threat in the future, compared with 33 percent in the case of big business and 18 percent in the case of government.[10] The CLC sees a direct link between active participation in economic and social planning and the legitimacy or the image of the unions.

> In most European countries the labour movement is involved in the planning process in a way that is not the case in Canada. In large part this is because the labour movement is an accepted part of society, as it is not here. The participation of the labour movement in manpower and labour market planning in these countries results in a degree of co-operation and consensus that has a great deal to do with their acceptance as a legitimate economic institution. (Canadian Labour Congress, p. 26)

Business Structures

The absence of a single employer organization, authorized to speak for Canadian business as a whole, to adopt positions on important current issues and be capable of enforcing the common decisions taken by member firms, undoubtedly undermines the joint-action process.

Canadian business, in fact, is extensively decentralized in structure. There are four national business organizations: the Canadian Manufacturers Association, the Canadian Federation of Independent Business, the Canadian Chamber of Commerce, and the Business Council on

National Issues, as well as numerous sectoral associations. In addition to being decentralized, the first three bodies cannot easily speak on behalf of their members, nor can they claim to represent business as a whole. The larger companies, moreover, tend to establish direct contact with the government, rather than allowing their associations to represent them.

The establishment of the Business Council in 1976 was an important advance in the direction of unity and cohesiveness in the business community, and it is proving to be a positive force for the development of joint action. The council is the first authentic spokesman for big business, in that the other associations are subject in varying degrees to the influence of small and medium-sized business. The council members, moreover, are the presidents and chief executive officers of 150 of the largest companies in Canada.

A number of factors led to the formation of the Business Council. As a result of the introduction of a system of centralized committees within the cabinet and their increasingly important role in the decision-making process at the expense of individual ministers and the cabinet as a whole, the business community's access to ministers and their influence was considerably reduced. At the same time, the government itself was urging business leaders to provide themselves with an effective spokesperson, in order to facilitate exchanges of views on general and national policies. The business community quickly realized that its interests would be best served by channelling its contacts with government and the unions through a single organization.

Employers were aware, moreover, that the price-and-wage-control program had substantially "politicized" the economic sphere. They felt a need to band together against increasing government intervention in the economy and against the CLC's proposal that it become a full-fledged partner in economic development. Finally, the large corporations considered that the existing business associations were too divided, too negative in their approach, and too limited in outlook. They decided, therefore, to establish a mechanism of their own to respond promptly and effectively to political problems as they developed.

The objectives of the council are different from those of the other associations. They have to do mainly with the adoption of positions regarding a limited number of national political questions, including energy, industrial policy, international trade, pension funds, labour relations and reform of political institutions. The council is under the direction of an action committee made up of thirty of the most influential business people in Canada. The president of the Canadian Manufacturers Association (CMA), the Canadian Chamber of Commerce and the Conseil du patronat du Québec (CPQ) are members ex officio of the council, in order to provide for a degree of coordination with the other associations. The action committee coordinates the activities of a dozen

groups, which make up a "shadow cabinet" and, with the assistance of member firms and outside consultants, produces research studies and recommendations on a variety of subjects. To an increasing extent, an effort is now being made to submit proposals to the government before draft legislation is introduced. A 235-page report was produced recently, for example, recommending amendments to the government's proposed competition bill.

In the last few years, the council has acquired considerable legitimacy with both the business community and government. It has been the catalyst, moreover, for most of the recent joint-action initiatives. The council is the first business organization to maintain close ties with the unions, in particular the CLC, and as we have seen, the establishment of the Canadian Labour Market and Productivity Centre is the most concrete result of a more harmonious relationship with the CLC.

The opposition between corporate giants and small enterprises is undoubtedly the most divisive factor in the business community. The Canadian Federation of Independent Business, which brings together 64,000 small and medium-sized businesses, is frequently critical of the monopolistic power wielded by big business, the unions and government. According to John Bulloch, the federation president, small business has a different system of values from those espoused by the CMA or the Chamber of Commerce. The federation, for example, supports efforts to promote competition and strengthen anti-monopoly legislation. This support was demonstrated, in particular, in its defence of service-station owners against the pricing policy of the major oil companies. The federation was also advocating a continuation of price and wage control at a time when other associations were urging the ending of controls. Finally, divergences exist in the area of labour relations. Because the majority of small and medium-sized businesses are not unionized, and because their financial structure is more fragile, employers in this group are opposed to any attempt at unionization, even to opening negotiations with the central union bodies.

Michael Ornstein's (1984, p. 48) study demonstrates that although there is strong ideological consensus within the capitalist class, there are significant differences between small business and big business. Ornstein summarizes his main findings as follows:

> Small business sees their main concern as threats from monopolistic corporations. However, these anti-monopolistic sentiments are combined with the view that the trade unions are anathema. . . . Small business proves significantly more liberal than big business on a variety of issues, including support for government investment in industry . . . welfare programmes. . . . These findings bear little resemblance to the reactionary labels commonly attached to small capital. (Ornstein, 1984, p. 49)

The extensive foreign ownership, mainly American, of Canadian manufacturing companies may also have an effect on the joint-action pro-

cess in Canada. Adoption of a national industrial policy and efforts in the area of socioeconomic planning would seem at the outset to be much more difficult in a context in which many of the decisions affecting Canadian economy are made by foreign companies, usually on the basis of priorities set by these companies and their countries of origin. In fact, foreign capital is less inclined initially to allow its representatives in Canadian institutions to make decisions on its behalf. In addition, although foreign ownership represents a considerable barrier to the development of corporatist structures, its impact on the joint-action process should not be exaggerated. Ornstein (1984, p. 48) found no basic ideological difference between foreign capital and Canadian capital, except where the precise question of foreign ownership is involved. The Business Council, with half its member companies foreign owned, sees no conflict between the two groups on the various economic and social problems.[11]

The regionalism of the Canadian economy and the considerable economic power wielded by the provinces are additional factors affecting the cohesiveness of the business community. It has had to adapt its decision-making structures to take into account the federal character of the country and to be in a position to negotiate more effectively with the provincial governments. In Quebec, which is undoubtedly the most extreme case, the Quebec Chamber of Commerce and the CMA-Q enjoy a considerable degree of autonomy; the CPQ is an exclusively Quebec organization, although it maintains some links with the Business Council. Interprovincial and intersectoral competition is accentuated by regional economic specialization. This situation may well complicate the search for a common denominator between the regional and national segments of Canadian business.

Taking into account, however, that the Business Council seems to speak with increasing authority for the business community on national questions, that ideological differences within the community are relatively minor, and that the council has shown a willingness to unite and to delegate certain powers to a central organization, there do not seem to be any insurmountable, structural obstacles to increased joint action where the business community is concerned.

Union Structures

From a structural point of view, Canadian unions are characterized by excessive decentralization, ideological and organizational divisions, and an unwillingness to delegate significant decision-making authority to the national organizations; all these factors have a bearing on the joint-action process.

The most obvious problem arises from the fact that only about one-third of Canadian workers are unionized. This casts doubt upon the representativeness of the unions, and allows government and business to

divide the labour sector by stressing the "privileges" enjoyed by unionized workers, at the same time holding them responsible for the difficult economic conditions of those in nonunionized occupations.

A second obstacle stems from the fragmented character of the union movement, which comprises several rival organizations and, despite the predominant position of the CLC, has no single spokesperson. The CLC itself is a relatively decentralized federation that plays a mainly coordinating role; it is unable in many instances to speak for its members, much less ensure their support of its objectives or positions. The affiliated unions, in fact, have a considerable degree of autonomy, and the CLC has no direct responsibility in collective bargaining. The provincial federations wield substantial power, particularly in the area of labour relations, and they are relatively independent in terms of information, research and services.

The existence of international unions, to which more than 50 percent of the CLC's members belong, contributes to the decentralization of decision-making authority. These unions enjoy considerable autonomy, and any significant involvement of the CLC in collective bargaining carries a risk of conflict with the American executive.[12] International unions have been a divisive factor in the history of the Canadian union movement. The Federation of Catholic Workers of Canada (CTCC), for example, the forerunner of the CNTU in Quebec, was formed as a reaction against the domination of the international unions, most of which were affiliated with the QFL. They have been criticized for their failure to support Canadian unions during various strikes, for the protectionism of the AFL–CIO, which represents a potential threat to Canadian jobs, and for the fact that union dues channelled to the United States are not adequately balanced by services to Canadian affiliates.[13] Many unions consider, moreover, that the international labour bodies wield too much influence within the CLC, and they are opposed to any centralization of powers in the Congress, which they feel would serve to strengthen that influence.

The establishment of the Canadian Federation of Labour (CFL) in March 1982 also weakened the labour movement in Canada. The Federation's membership of some 213,000 is modest in comparison with the CLC's two million, and it seems to be having difficulty recruiting new members. The formation of the CFL resulted from a long jurisdictional conflict in the construction sector in Quebec: 300,000 construction workers withdrew from the CLC, and ten of the 13 unions decided to establish the CFL.

In political and ideological terms, the Federation is much more "conservative" than the CLC. Unlike the latter, it declines to endorse the NDP:

> Our first objective is to represent the interests of our affiliated unions. In our view, this will only be possible if we can deal with the government in power

by presenting ourselves as a national labour movement with no partisan political involvement.[14]

In the CFL's brief to the Commission (1983, p. 5), James McCambly, the president, refers to common objectives shared by business and unions, to the need for the labour movement to espouse some of the business community's traditional objectives, including support for technological change and innovation, and to the goal of increasing productivity in order to make Canadian companies more competitive on the international market.

The existence of a distinct and largely autonomous union movement in Quebec represents another challenge to union solidarity. The CNTU is a totally independent, rival federation that rejects the international unions and conducts regular "raiding" campaigns to entice members away from the QFL, particularly in the construction sector. The CNTU has a much more centralized structure than the CLC, and in ideological terms is considerably more politicized and militant. It upholds the concept of a socialist society founded on class conflict.[15]

The QFL, although affiliated with the CLC, retains a considerable degree of independence. It rejects alignment with the NDP because of the NDP's predominantly Anglophone character, supports the objective of an independent Quebec, has much in common with the Parti québécois, and opposes all efforts by the CLC to promote centralization of union powers.

The continuing influence of trade unions in Canada, as opposed to industrial unions, adds to the difficulty of achieving consensus on many issues. The trade unions tend to be more concerned with occupation-related problems than with issues associated with their particular industrial sectors. Questions of productivity, restructuring of industry, industrial policy and company efficiency are of secondary interest to them. The continued presence of trade unions, particularly in the construction, transport and printing sectors, also serves to increase the number of bargaining units and to complicate the development of coherent strategies and policies at company and industry levels.[16] In this context, it is not surprising that trade unions are the most reluctant to delegate power to the CLC, and that they are opposed to corporatism because of the centralization of authority it implies.

Centralized collective bargaining at the industry level (the single, sectoral table) is generally considered a factor conducive to joint action. In a study of incomes policies, C.L. Barber (Barber and McCallum, 1982, p. 65) claims that the four countries that have been most successful in combatting inflation — Austria, Belgium, West Germany and the Netherlands — are all distinguished by a centralized collective bargaining system in which employers and unions are empowered to conclude collective agreements for entire sectors. In Canada, for structural,

regional, historical and ideological reasons, 75 percent of collective agreements are still negotiated between local unions and individual companies.

Notwithstanding the divisive factors to which we have just referred, the CLC's efforts to increase centralization and obtain greater autonomy for Canadian affiliates of international unions have begun to bear fruit. Price and wage control stimulated an awareness of the need to centralize power in order to defend the interests of the workers more effectively. The *Manifesto* is clear on this point:

> In the future, the CLC must have the power which can only come from the collective strength of its affiliates. There must be agreement between all the affiliates that a full co-operative and co-ordinated effort will be forthcoming to guarantee that the CLC is operating from a position of strength to protect the rights, freedoms and legitimate interests of all workers. The Executive Council as the responsible decision-making body between conventions must be assured that the policies and decisions it makes will be followed closely by all the affiliates. (Canadian Labour Congress, 1976a)

Canadian affiliates have become noticeably more "nationalistic" in recent years and have won a great deal more power and independence from the American unions, including, in particular, freedom to negotiate their own collective agreements. Finally, the radicalism of Quebec's central labour bodies is considerably diminished. They have agreed to participate in joint-action initiatives, and the prospects of cooperation with the federal unions seem to have improved.

From the foregoing analysis, it would appear that there are major obstacles to corporatism in Canada, and that there is little likelihood of such structures developing in the foreseeable future. On the other hand, mechanisms for joint action have clearly begun to take form in recent years. What factors have contributed to this development in the Canadian context?

The principal cause can undoubtedly be traced to the serious economic problems that Canada has experienced in the last few years. Douglas Brown and Julia Eastman refer to "fundamental changes affecting the Canadian economy . . . which in most cases have their roots in the international economic climate." (Brown and Eastman, 1981, p. 15.) Increasingly strong international competition, inflation, structural unemployment and rapid technological change are the main features of this new economic landscape. The gravity of the situation has given rise to a new "national solidarity" among business, unions and government, which have felt the need to work more closely together in self-defence.

Another factor contributing to this more closely integrated approach, which is also associated with the downturn in the economy, is the sense of powerlessness felt by the business community and the unions in recent years. Owing in part to the increasing impact of the international

situation and in part to the growing involvement of government in the economy, business and unions have gained the accurate impression that their control of their environment is diminishing. To avoid even more restrictive government control, they have found it to their advantage to seek consensus on certain issues.

The narrowing of the ideological gap between business and the unions is attributable to the two factors outlined above. The insecurity felt by the two actors has impelled them to look for common ground and to avoid futile confrontations. Government, in turn, has also shown some receptiveness to the concept of joint action. In the hope of improving the labour-relations climate, it has indicated a willingness to accept the political risks that such a process involves.

Finally, the increased cohesiveness of business and union structures has also contributed to the development of a concerted approach. For the business community, the establishment of the Business Council represented an important milestone. For the unions, there has been a greater centralization of powers and an increasing tendency on the part of members to allow the central bodies to speak for them.

The Prospects for Consensus Building in Canada

The two preceding sections have shown that present conditions in Canada are not propitious for the introduction of corporatist structures. The parties are not prepared to accept any dilution of the traditional authority of Parliament, nor are they in a position to commit or guarantee the support of their members with respect to decisions taken by a national planning body. In addition, a number of structural and ideological factors, including the extensive decentralization of union, business and government organizations, federalism, regionalism and the political culture, act against this type of development in Canada.

Moreover, the principal spokespeople for unions, business and government are opposed to any sort of corporatist structure. None of the three parties is prepared to delegate significant powers to a planning body or to accept a reduction of its freedom of action or its autonomy. The Canadian public in general seems to oppose any dilution of the authority of Parliament, and in this sense, corporatism is perceived as undemocratic. There is a fairly widespread fear that an alliance among big business, a labour élite and government would be detrimental to the interests of the majority of Canadians. The fact that a corporatist structure would exclude such groups as farmers, consumers, nonunionized workers and possibly provincial and municipal governments, is a further cause for concern. Even if corporatism were possible in Canada, therefore, it is not at all certain that it would be desirable or acceptable to the majority.

While conditions are not ripe for corporatism in Canada, a much more

favourable climate exists for joint action and for experimental mechanisms aimed at promoting consensus on various economic and social problems. As we have seen, a number of positive trends have developed in the last few years. There is no doubt that the economic situation, and in particular price and wage controls, severely jolted the social partners and convinced them of the advisability of establishing permanent mechanisms to allow mediation of conflicts. At the same time, a consensus developed out of the urgent need to change the adversarial character of labour relations, which has impeded maximum development of the Canadian economy. The fact that in Canada, in comparison with a number of other countries, the ideological divergences between unions and employers seem less acute is a positive factor. Although significant disagreement still exists, the CLC is not questioning the present economic system, and the new Business Council has shown a degree of sympathy with respect to social problems and union legitimacy. The improved relations between the Business Council and the CLC, the climate of confidence and the dialogue that have been established between the two associations, and the setting up of the Canadian Labour Market and Productivity Centre on a bipartite basis are undoubtedly the most important advances in the direction of joint action.

Generally speaking, the various structural factors that continue to stand in the way of corporatism have developed in such a way as to render dialogue and consensus much more attainable. On the business side, the establishment of the Business Council represents a major step forward. For the first time in Canadian history, there is a voice that speaks for the business community, and without necessarily binding all its members, is also empowered to convey its response to the major issues of the day, while at the same time seeking to establish consensus within the business community and with the other social partners. For the unions, despite persistent internal divisions and a continuing reluctance to delegate substantial powers to the CLC, the leadership has succeeded in convincing a large segment of the membership that there must be a greater centralization of power in order to strengthen the unions' bargaining position opposite government and business, with a view particularly to facilitating the introduction of new technologies, supporting the collective bargaining process, and extending debate to major economic and social issues. The government, for its part, has realized that implementation of an industrial policy, or even of certain national economic policies, necessitates a concerted approach. In terms of labour relations, it has also become apparent that a more stable climate will contribute to economic development. The government has accordingly been trying for several years to promote joint-action initiatives, in particular by facilitating the establishment of the Canadian Labour Market and Productivity Centre.

The case studies highlighted in our second section indicate, however,

that Canada remains far behind most European countries in the development of mechanisms for joint action and in the search for social consensus. *There is still a long way to go before joint-action mechanisms become significant and influential elements in the Canadian political process*. Some positive factors are, nevertheless, deserving of mention. The large number of task forces organized by the government, particularly since 1978, have contributed to a significant improvement in the consultation environment.[17] While they have had little influence on government policy, these groups have provided a framework for wide-ranging discussion of current problems and have served to establish links among the participants. The Canadian Labour Market and Productivity Centre, which was set up after several years of negotiation as a means of promoting consensus among the parties, constitutes a vital instrument and is the focus of various task forces' hopes for the future. At the provincial level, a number of agencies or mechanisms for joint action have recently been established, and some experiments appear promising. We believe that *in the next few years, several essentially consultative organizations will become increasingly oriented to consensus building*.

On the basis of the experiments that we have analyzed, as well as of the attitudes and aspirations of the parties concerned, it is possible to make some conjectures as to the conditions and the framework most likely to favour the development of concerted action in the future.

The Bipartite Approach

Most of the recent, more successful experiments in Canada have adopted a bipartite structure involving business and unions, rather than a tripartite or multipartite approach. The role of government has been limited to sending observers or providing technical and financial support. Under present conditions, this appears to us to be the format most conducive to consensus building, although sooner or later there will have to be active participation by the federal and provincial governments.

The bipartite approach is to some extent an outcome of the hostility the two parties may have felt toward government in the last ten years and of their increasing sense of being powerless to influence government policy. Business has been critical of the government's one-sided consultations and its increasing intervention in the economic and social life of the country. There is also a realization that businesspeople have less direct access to key economic information than they had previously. For the unions, the bipartite structure is a means of avoiding domination by a business-government axis. They are attempting, also, to counter the decline in union power, attributable, among other elements, to government's unilateral action to control wages, technological change and increased unemployment in the most heavily unionized sectors.

Business and unions share the common objective of blocking or circumventing attempts by government to reduce their autonomy or threaten their interests. They are convinced that adopting joint positions will not only improve their access to critical information and their influence, but will also reduce the risk of unilateral government decisions. So firm is this conviction that the CLC, and possibly the Business Council, would not have agreed to participate in the Canadian Labour Market and Productivity Centre if the government had been a full participant.

On the part of government, there is fear that the bipartite organizations may become forums for criticism of government policy. There is also concern that the government might find itself in an awkward position were it to reject the business-union consensus. On the other hand, the bipartite structure offers the government certain advantages: one advantage is that the government can obtain useful information on the positions of the two parties without the necessity of taking a position itself. Its "representatives" can refrain from supporting initiatives or positions that could prove embarrassing to the government.

The Need for Permanent Mechanisms

As we have pointed out, the process of consultation and joint action in Canada is conducted largely on an ad hoc or temporary basis, through such mechanisms as task forces. Although, in some cases, temporary and "informal" groups achieve the most satisfactory results, it is important that more permanent structures be established if the joint-action process is to show significant development. It is also essential that mechanisms not be put in place for the sole purpose of dealing with crises. In the words of a business executive, "Consultation must be used to assist long-term policy development and not as a crisis management technique."[18]

The two experiments in voluntary price and wage control, involving ad hoc committees, have shown how difficult it is to develop a climate of confidence and to achieve agreement between participants who are unaccustomed to working together.

Access to Information

Since joint action depends to some extent on the mutual confidence of the partners and the open-mindedness they show, it seems essential that information circulate freely among all the participants. If necessary, the government should adopt legislation that compels businesses and government institutions to make all information relevant to the joint-action process uniformly available.

As one union leader has observed, "Information is the key to con-

fidence."[19] Canadian business and government would do well to follow the example of the European countries, which have generally facilitated access to basic information on business and the economy.

The Perceived and the Real Effectiveness of the Process

In the final analysis, it is the effectiveness of the joint-action process in meeting the parties' expectations and objectives that will determine its development and, indeed, its continuing existence. Business and unions have made substantial concessions in recent years in an effort to move toward a common position. It is essential that these efforts achieve at least an appreciable measure of success.

There is fear on the part of both unions and business that consultation may become merely a formality, a one-sided exercise unproductive of any real influence. A business executive expresses this view:

> Frustration develops when government uses consultation as a sounding board . . . this type of consultation is frequently utilized by government when they only want business reaction to a proposal or policy. In this instance government has already determined what it will do . . . subsequently there is no feedback to the input provided.[20]

There is a growing impression among businesspeople that their margin of autonomy is shrinking, not only because of direct competition, but also as a result of the international situation and of government decisions, and for this reason they hesitate to become involved in organizations that would restrict their freedom of action even more, without offering any tangible compensating advantage, particularly in terms of a more stable environment. They wish, especially, to avoid becoming merely instruments for legitimizing government decisions.

The unions, for their part, remain ambivalent with respect to joint action. Delegates to the CLC convention in Montreal in June 1984 gave only lukewarm support to participation in the Canadian Labour Market Centre. The union movement is obviously seeking ways of increasing its power, but has no wish to be co-opted. Since the labour movement is investing substantial human and financial resources in the joint-action process, it is unlikely to accept for long the role of spectator without real decision-making influence.

The question of union legitimacy also has a considerable bearing on the future of joint action. Some union militants consider the absence of legitimacy sufficient justification for refusing to participate in joint-action initiatives. The majority believe, however, that legitimacy will come through participation. This expectation should not be frustrated, and business and government should show a more open-minded attitude, particularly in the area of union certification.

The establishment of the Canadian Labour Market and Productivity

Centre is a positive development in this respect. The unions are accepted as full partners for all purposes, including the determination of agendas for meetings, representation structures, participation in research committees, hiring of staff, and so on. In our view, it is important that the government adopt the practice of allowing associations to appoint their own representatives to joint-action organizations, to ensure not only fair and equal representation, but also the autonomy of the parties involved.

The short-term future of joint action at the federal level depends in large measure on the ability of the centre to fulfill its mandate. As a CLC executive put it, *"The Centre is a major break-through . . . if it doesn't work, it will be a long time before something else can take its place."*[21] This impression is shared by the Business Council:

> A lot of us are nervous about the Centre, many things can go wrong. . . . If the Centre does not work, and breaks up in acrimony, we can close the coffin lid on the whole idea of national cooperation, and any further attempt to bring labour, business and government together in an effective way.[22]

Participation of Other Social Groups

Since mechanisms for joint action are still in an early stage of development in Canada, the question of making the process more democratic through the participation of other groups is less imperative than it would be in a corporatist system. Nevertheless, the problem exists and will have to be resolved for the future. Although the parties agree that too large a number of participants undermines the effectiveness of the process, they realize that the legitimacy of the undertaking may eventually be called in question if other groups are not associated with it. Such groups as non-unionized workers, farmers and consumers, at least, should be able to be represented in organizations whose decisions directly affect them.

Nature and Scope of the Process

The parties agree that the more limited and precise the terms of reference, the greater the possibility of consensus. Too broad a mandate can easily result in futile discussions that become mired in contentious issues.

It is not surprising, therefore, that sectoral bodies (textiles, pulp and paper, banks and so forth) are able to reach consensus much more easily. It is simpler to develop an industrial strategy for one sector than for the entire economy. In the case of textiles, for example, unions and employers invariably agree on the necessity of maintaining tariff barriers, since they can afford to overlook the effects of such measures on the rest of the economy. By the same token, it is usually easier to obtain consensus at the provincial level than at the federal level. Provincial economies tend

to be more homogeneous than does the federal economy, and there is greater cohesiveness among the representatives.

Under present conditions, joint-action organizations have to avoid discussing wide-ranging policies, especially in areas in which employers and unions hold diametrically opposing points of view. This applies in particular to the social and economic role of government, foreign investment, establishment of a national industrial policy, tax policies and the distribution of wealth in general. Since employers are primarily concerned with the profitability of their operations, whereas unions are mainly preoccupied with maintaining the level of employment, the most promising areas for discussion are manpower training and mobility, adapting to technological change and international competition, productivity and industrial relations. For reasons previously mentioned, sectoral bodies seem in many cases to be in a better position to move toward consensus than do more broadly based structures. There is a greater likelihood of progress, also, in areas in which the participants are not obliged to commit their members. Business guards its margin of autonomy, while unions continue to rely on collective bargaining as the most effective means of advancing their interests.

Potential disagreements over the scope of the various organizations' terms of reference constitute a further danger to concerted action. The government appears to favour a purely consultative role, aimed at legitimizing its decisions in the political environment. The business community is actively seeking consensus, but seems reluctant to see the process become a decision-making mechanism. The unions, on the other hand, while not actually promoting a corporatist concept, are anxious to make their influence felt at the decision-making level.

The Canadian Labour Market and Productivity Centre has a clear mandate, but the parties seem to differ in their interpretation of its extent. The business community expects a great deal less of the Centre than do the unions. The CLC, in fact, believes that the Centre's mandate will eventually extend to all major economic problems, since it considers that the problems of manpower and productivity can be dealt with only through overall economic solutions. In addition, both the CLC and the CFL are recommending that steps be taken to establish a national joint-action structure with broad terms of reference.

The Business Council, on the other hand, sees manpower and productivity as more "technical" and limited problems, which do not call for an analysis of economic problems in general. It is opposed, moreover, to the establishment of a national joint-action forum.

> Rather than a grand, national tripartite body, we believe that more modest and smaller co-operative initiatives involving business and labour — and in some cases government as well — may be the most effective way to improve industrial relations in Canada. (Business, Council on National Issues, 1983, p. 27)

It should be stressed that progress in joint action at the national level is closely related to the democratization of the decision-making process at the company level. A degree of consensus between management and employees in this regard can be discerned from briefs submitted to the Commission. In the view of the Canadian Manufacturers Association (1983, pp. 37–38):

> Management has a responsibility to find ways of sharing decision-making in the work place. . . . It should involve employees in the affairs of the company by means of participation on committees dealing with operational matters, where the company's goals, its competitive position, the problems which must be overcome and the results obtained are openly discussed.

The CSD, for its part, calls for "participation in management," democratization of the decision-making process and "joint action in a global sense, extending from participation at the working level." (Centrale des syndicats démocratiques, 1983, p. 16.)

In conclusion, the joint-action process developing in Canada is distinctive in character, as are the institutions set in place, which reflect a political, economic and ideological environment unlike that of any other country. Establishing a national agency or forum for joint action on economic and social problems, which would function at a level midway between joint action and corporatism, would seem premature at this stage.

In the medium term, we believe that joint action will continue to develop. This conviction is based, in part, on the expectation that major changes in the economic sphere will continue to exert strong pressure on the various partners in the foreseeable future. Most economic changes are, in our view, structural rather than circumstantial. Even in a moderately improved economic climate, therefore, the partners must continue to work together to meet the challenges of international competition, technological change, unemployment and the need for increased productivity.

Notes

This study is a translation of the original French-language text, which was completed in September 1984.

1. Interview with an executive of the Canadian Labour Congress, May 1984.
2. For an excellent analysis of this period, see L. Panitch (1979), pp. 68–75.
3. Interview with an executive of the Canadian Labour Congress, May 1984.
4. For a detailed analysis of task forces, see Blair (1984).
5. Quoted by L. Binsse, "La CSN reprend ses relations avec la CSST," *La Presse*, May 18, 1984.
6. See briefs to the Royal Commission on the Economic Union and Development Prospects for Canada, from George Weston, le Conseil du patronat du Québec, Canadian Manufacturers Association, Dow Chemical, Consolidated Bathurst, Canadian Pulp and Paper Association and la Chambre de commerce du Québec (1983).

7. See, for example, briefs from Manitoba Federation of Labour (1983) and Canadian Union of Public Employees (1983).
8. For a more detailed discussion of this point, see Langille (1982), pp. 167–84.
9. See Digiacomo (1978), pp. 116 and 117.
10. Ibid, p. 118.
11. Interview with an executive of the Business Council on National Issues, May 1984.
12. See Panitch (1979), pp. 80–82.
13. See Digiacomo (1978), p. 57.
14. Canadian Federation of Labour, *Position Paper* (Ottawa: CFL, 1982), p. 3.
15. For a more comprehensive discussion of this point, see Digiacomo (1978), pp. 68–90.
16. Ibid., pp. 53 and 54.
17. See Blair (1984). Between October 1982 and October 1983, 26 task forces were instituted at the federal level.
18. Quoted by Blair (1984, p. 99).
19. Interview with an executive of the Canadian Labour Congress, May 1984.
20. Quoted by Blair (1984, p. 98).
21. Interview with an executive of the Canadian Labour Congress, May 1984.
22. Interview with an executive of the Business Council on National Issues, May 1984.

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